OFFICE OF INSPECTOR GENERAL

USAID/MACEDONIA’S YOUTH EMPLOYABILITY SKILLS NETWORK PROJECT

AUDIT REPORT NO. 9-165-15-003-P
JULY 10, 2015

WASHINGTON, D.C.

Office of Inspector General

July 10, 2015

MEMORANDUM

TO: USAID/Macedonia, Mission Director, James Stein

FROM: IG/A/PA, Director, Jon Chasson /s/

SUBJECT: Audit of USAID/Macedonia's Youth Employability Skills Network Project (Report No. 9-165-15-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix II.

The audit report contains 14 recommendations to help USAID/Macedonia strengthen mission management and administration of the Youth Employability Skills Network project. After reviewing information provided in response to the draft report we determined that the mission has made management decisions on 13 recommendations and taken final action on 12 recommendations. We are unable to acknowledge a management decision on Recommendation 3 as all the criteria for reaching a decision have not yet been met. We disagree with the management decision on Recommendation 14 because the mission's response did not fully address the recommendation. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

Thank you and your staff for the cooperation and assistance extended to the audit team during this audit.

Washington, D.C.
http://oig.usaid.gov/

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer's representative
EDC	Education Development Center Inc.
FY	fiscal year
M&E	monitoring and evaluation
MOU	memorandum of understanding
NGO	nongovernmental organization
OIG	Office of Inspector General
PMP	performance management plan

SUMMARY OF RESULTS

Youth unemployment in Macedonia has been an ongoing problem. According to the Macedonian State Statistical Office, in the first quarter of 2013 the unemployment rate for those aged 15 to 24 was almost 54 percent. A European Commission report in 2012 said, “Little has been achieved in addressing the very high unemployment, which is mostly structural and affects mostly the young and poorly educated.” Due to the high unemployment, USAID/Macedonia launched the Youth Employability Skills Network Project to improve the job skills of unemployed youth.

Education Development Center Inc. (EDC) is implementing the project under a cooperative agreement. The 5-year project began on September 30, 2010 and is scheduled to end on September 29, 2015. The award was originally for nearly $6.7 million. On July 30, 2013, USAID/Macedonia added $300,000 to help youths with disabilities. As of September 9, 2013, the project had obligated more than $4.2 million and disbursed nearly $3.4 million.

The implementing partner’s strategy was to create a network of partners, including secondary school educators, staff at government employment offices, and employers in each of seven targeted municipalities. The project started with networks in Tetovo, Bitola, and Strumica; networks in Gostivar, Prilep, and Stip began in the second year; and expanded to the capital, Skopje, in the third year. These networks were to (1) improve collaboration among educators, trainers, and employers, (2) improve the supply of workers by providing job skills training to youths, (3) build the capacity of public institutions to provide services and respond to changing labor market needs, and (4) use established processes to accomplish the project’s goals.

The Office of Inspector General (OIG) conducted this performance audit to determine whether USAID/Macedonia’s project was achieving its main goal of enabling youths to participate in the economy through its training, capacity-building, and public-private partnership strengthening activities.

The implementing partner reported that the project had accomplished the following:

- It developed the capacity of teachers in 38 percent of Macedonia’s secondary schools and staff in 23 percent of the country’s employment offices to deliver career-related training to students and unemployed youths.

- It established or upgraded 35 secondary school career centers and six employment office job clubs.

- It gained support for its job skills curriculum;[1] the Macedonian Government added some courses as electives in secondary schools in participating municipalities.

- It developed a certification program for career counselors that the government endorsed nationwide.

However, the audit disclosed weaknesses in the following areas:

[1] The job skills curriculum comprises courses in work-readiness skills and work-based learning.

- The project did not have a strategy for sustainability (page 4). Without it, prospects for project activities continuing after the project ends were unclear.

- Leverage[2] amounts were low, inaccurate, and not being reported quarterly (page 5). The implementing partner obtained less than 10 percent of its goal.

- The mission did not have a mission-wide performance management plan (PMP) (page 5). USAID's Automated Directives System (ADS) requires a mission-wide PMP to make sure all mission activities contribute to its strategy. Instead of following ADS, staff were following a mission order that allowed them to create plans for each mission objective piecemeal.

- The project's monitoring and evaluation (M&E) plan was deficient (page 6). It was missing required elements, had unclear definitions and targets, and did not track progress in several areas, complicating any assessment of project achievements.

- The midterm evaluation was late (page 8). The mission rescheduled it to avoid overtaxing its staff. But because it did not complete the midterm evaluation by the September 2013 deadline, USAID/Macedonia could not use the evaluation for its intended purpose, to determine half way through the project whether to continue the project for 2 more years, modify, or discontinue entirely.

To address these concerns, we recommend that USAID/Macedonia:

1. Collaborate with the implementing partner to develop a sustainability strategy (page 4).

2. Reassess whether the project's grants awarded to nongovernmental organizations (NGOs) are sustainable, and if not, require a sustainable approach before approving any further subawards (page 4).

3. Require the implementing partner to revise memorandums of understanding (MOUs) as necessary to incorporate elements of the sustainability strategy (page 4).

4. Require the implementing partner to sign an MOU with the Municipality of Strumica (page 4).

5. Notify mission staff in writing to monitor and communicate progress on project deliverables (page 5).

6. Instruct the implementing partner in writing to fulfill its responsibility to identify leveraging sources and report on them quarterly (page 5).

7. Work with the implementing partner to implement a plan to meet the agreed-on leverage amount (page 5).

8. Develop a mission-wide PMP (page 6).

[2] "Leverage" refers to non-USAID funding and resources that implementers are expected to raise/attract and apply to a project.

9. Update its monitoring and evaluation mission order to reflect ADS requirements and clarify staff members' proper roles and responsibilities in clearing and approving project monitoring and evaluation plans and indicators (page 8).

10. Require the implementing partner in writing to revise the project's monitoring and evaluation plan to meet ADS requirements and to include all project objectives and career service network components that contribute to the project (page 8).

11. Reevaluate whether all the project's performance indicators meet indicator criteria, and revise them if needed, documenting the results accordingly (page 8).

12. Instruct the implementing partner in writing to adhere to the project's monitoring requirements for reporting disaggregated data (page 8).

13. Determine in writing whether a midterm evaluation is still necessary. If it is not, document the determination and have the agreement officer modify the agreement accordingly (page 9).

14. Notify its staff in writing that they and implementing partners must meet all terms and conditions of agreements and contracts unless the agreement officer modifies the agreement (page 9).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments appears on page 10, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Project Did Not Have a Strategy for Sustainability

One of USAID's operating principles is building in sustainability from the start. The cooperative agreement emphasizes the need to plan and implement a sustainability strategy. The agreement also says the project will secure the commitment of Macedonian Government entities as soon as practicable by developing MOUs at the national, local, and municipal levels. These MOUs will explicitly state mutual expectations and responsibilities for project sustainability.

Project sustainability was questionable, as is evident from the following examples.

- Initially, the implementing partner used short-term agreements with local NGOs to train youths that were out of school, unemployed, and not registered with employment offices. However, the implementing partner as well as a few NGOs concluded this was not a sustainable approach. NGOs would need continuous funding to sustain training. When asked about the sustainability of NGO-provided training, the mission responded that this was the only method available for reaching unregistered youth.

- The implementing partner did not sign an MOU with the Municipality of Strumica to sustain the local economic and social council as the agreement requires. The implementing partner and the agreement officer's representative (AOR) said they chose not to sign an MOU with Strumica despite the cooperative agreement's requirement, because both saw Strumica as a "star municipality." Still, elected officials might be replaced in elections, and the undocumented mutual expectations and responsibilities may be lost or put at greater risk of being later disregarded without an agreement.

These situations arose because a strategy emphasizing sustainability was not implemented, and the AOR did not adequately monitor the implementing partner to ensure its compliance with agreement terms. Implementing sustainable programs is a USAID priority. Without a sustainability strategy, Macedonian organizations are unlikely to continue activities the project started. Therefore, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Macedonia collaborate with the implementing partner to develop a sustainability strategy.*
>
> ***Recommendation 2.*** *We recommend that USAID/Macedonia reassess whether the project's grants awarded to nongovernmental organizations are sustainable, and if not, require a sustainable approach before approving any further subawards.*
>
> ***Recommendation 3.*** *We recommend that USAID/Macedonia require the implementing partner to revise memorandums of understanding as necessary to incorporate elements of the sustainability strategy.*
>
> ***Recommendation 4.*** *We recommend that USAID/Macedonia require the implementing partner to sign a memorandum of understanding with the Municipality of Strumica.*

Leverage Amounts Were Low, Inaccurate, and Not Reported Quarterly

The cooperative agreement states that the implementing partner agrees to a goal of obtaining $401,400 in leverage. It also states that the implementing partner will identify and document sources of these non-USAID contributions in its quarterly program performance reports.

The implementing partner had not made adequate progress in obtaining the required amount of leverage and was not reporting it accurately. It reported receiving $36,603; however, it actually received $39,415, which still was less than 10 percent of its goal. The implementing partner's amount was inaccurate because it did not include contributions from six NGOs. Further, according to the AOR, the implementing partner reported these non-USAID contributions only twice in 3 years, instead of quarterly.

To make up the shortfall, an implementing partner official said EDC planned to count the salaries of teachers teaching new skills. The mission, however, did not agree that this counted as leveraging.

The leveraging requirement was not enforced. Although the AOR received only two leverage spreadsheets in 3 years, she did not ask the implementing partner why she was not receiving them quarterly as called for in the cooperative agreement. Likewise, she did not raise any concerns about the low amounts the implementing partner had attracted from non-USAID sources or communicate this information to the agreement officer, who could have taken corrective action. Finally, she did not compare the amounts the implementing partner was reporting with the amounts reported by subawardees.

Private sources of funding broaden commitment to the project's success and expand its impact. Low leverage amounts limit the project to those areas, activities, and groups that can be reached by USAID funding. Increased leverage could allow the project to train more teachers, students, and staff. Therefore, we make the following recommendations.

> ***Recommendation 5.*** *We recommend that USAID/Macedonia notify mission staff in writing to monitor and communicate progress on project deliverables.*
>
> ***Recommendation 6.*** *We recommend that USAID/Macedonia instruct the implementing partner in writing to fulfill its responsibility to identify leveraging sources and report on them quarterly.*
>
> ***Recommendation 7.*** *We recommend that USAID/Macedonia work with the implementing partner to implement a plan to meet the agreed-on leverage amount.*

Mission Did Not Have a Mission-Wide Performance Management Plan

ADS 203.3.3 states:

> Each Mission must prepare a mission-wide PMP that includes performance indicators, baseline data, and targets for the CDCS [country development

cooperation strategy[3]] Results Framework and project LogFrames. PMPs should be mission-wide rather than separate documents for each DO [development objective or assistance objective]. Missions or offices that do not have a CDCS are still required to have a PMP that covers any projects or activities they fund.

Mission-wide PMPs are tools used by missions to track progress on their overall goals. USAID/Macedonia does not have a mission-wide PMP. Instead, it has three separate assistance objective PMPs—for education, economic growth, and democracy and governance—that came into effect in July 2010.

Mission officials did not prepare a mission-wide PMP because they did not understand that the ADS requirements applied to them. For example, an official said that since the mission did not have a country development cooperation strategy, it did not need a mission-wide PMP, although this interpretation is not supported by the ADS language. Other officials noted that they followed the mission order on M&E policy, which allows for a PMP for each assistant objective. However, this mission order had not been updated to reflect the most recent ADS language.

Without a mission-wide PMP, decision makers can't as easily connect project goals to the mission's main goal or coordinate across all sectors. Furthermore, without a mission-wide PMP, USAID/Macedonia is not in compliance with ADS. Therefore, we make the following recommendation.

> ***Recommendation 8.*** *We recommend that USAID/Macedonia develop a mission-wide performance management plan.*

Project's Monitoring and Evaluation Plan Was Deficient

According to ADS 203, performance monitoring demonstrates USAID's commitment to use resources effectively to achieve results. It further states that missions must develop an M&E plan during project design to serve as "a framework for monitoring and evaluation that "pulls together performance information from all activities contributing to a project." The plan should:

- Identify questions to be addressed, lay out evaluation methods or approaches, and describe any plans for data collection.

- "Support reliable data collection by defining indicators, sources, and methods of data collection as well as by prescribing the frequency and schedule of data collection and assigning responsibilities."

- For each level of project results, include well-defined indicators that have a target or "planned level of result to be achieved within an explicit timeframe" and are ambitious but achievable.

The project's M&E plan did not meet several ADS requirements, and was not adequate for assessing the project's progress, as noted below:

---

[3] According to ADS 201.3.2, USAID missions use country development cooperation strategies to define their development objectives and maximize the impact of development cooperation.

- *Required elements were missing.* The plan did not contain a data reporting schedule, questions that evaluations were required to address, or data collection methods for six indicators.

- *Definitions were not clear.* The data to be collected needed clarification. For example, Indicator 5.1, *Review and enhance the national curriculum for secondary education for work readiness skills*, discussed the need to update course content for some vocational subjects. However, the results reported the number of schools where the job skills curriculum was implemented, with no mention of updating any national curriculum.

- *Several targets were misleading.* The project set several goals as percentages without including target numbers. For example, on Indicator 4.1, pertaining to the percentage of trained secondary school teachers implementing career-related activities in the classroom, the target was set at 20 percent of teachers trained by the project in fiscal year (FY) 2012. However, the project did not set a numeric target in the M&E plan, so 20 percent could be accomplished if one out of five teachers were implementing an activity, or 100 out of 500.

- *The plan did not have measures to track several project components*. Two components of the career services network, referral and placement of prepared applicants and forecasted needs for labor, did not have indicators or planned levels of results to track progress. The same was true of the project's objective to integrate productive connections with the workforce-related activities of other donors.

- *The plan had no requirements for measuring assistance to vulnerable populations.* Although the cooperative agreement stated that the project would focus on vulnerable populations, including ethnic minorities, there were no requirements in the M&E plan to measure the implementing partner's success in reaching ethnic minorities.

- *Data reported on most indicators were not disaggregated.* The M&E plan did not disaggregate reported data by project activity, region, age group, etc., making it difficult to determine progress in these areas.

- *Project's contribution was unclear within an indicator.* Progress on encouraging students to complete internships or gain work-based experience through job skills training was difficult to attribute to the project since Macedonia requires all secondary students to gain work-based experience, e.g., through internships. Furthermore, the implementing partner did not establish a way of differentiating results for those who participated in the project's training from results for nonparticipants.

These deficiencies occurred because mission staff had unclear guidance. The implementing partner is required to submit the M&E plan annually to the AOR for approval. The mission's M&E mission order states that the AOR approves changes to a project's M&E plan after "obtaining clearance" from the mission's program office. However, the guidance did not clarify what "clearance" from the program office meant. When asked about the process for clearing annual project M&E plans, mission officials gave different answers. The AOR said when she submitted the project's annual M&E plan to the program office for clearance, she relied on that office to confirm that the plan met all requirements and to identify project indicators' strengths and weaknesses. When the program office cleared the plan, she approved it and sent it back to the implementing partner. On the other hand, the program office director said the mission order requiring program office clearance of the M&E plan became effective 9 months after the project started. Therefore, she believed it did not need program office clearance.

Having a deficient M&E plan and inadequate performance indicators made it difficult for USAID/Macedonia to judge whether the project was being implemented properly. Therefore, we make the following recommendations.

> ***Recommendation 9.*** *We recommend that USAID/Macedonia update its monitoring and evaluation mission order to reflect Automated Directives System requirements and clarify staff members' proper roles and responsibilities in clearing and approving project monitoring and evaluation plans and indicators.*

> ***Recommendation 10.*** *We recommend that USAID/Macedonia require the implementing partner in writing to revise the project's monitoring and evaluation plan to meet Automated Directives System requirements to include all project objectives and career service network components that contribute to the project.*

> ***Recommendation 11.*** *We recommend that USAID/Macedonia reevaluate whether all the project's performance indicators meet indicator criteria, and revise them if needed, documenting the results accordingly.*

> ***Recommendation 12.*** *We recommend that USAID/Macedonia instruct the implementing partner in writing to adhere to the project's monitoring requirements for reporting disaggregated data.*

Midterm Evaluation Was Late

The cooperative agreement states that a midterm evaluation will be conducted before the end of the third year (September 2013) of the project Its results will be used to determine whether the project is producing results and will be continued as planned in Years 4 and 5, modified, or discontinued entirely because objectives are not being met.

USAID/Macedonia commissioned a third-party performance evaluation for the project on May 2, 2013. According to the AOR, this evaluation was scheduled to begin in early 2014, with a draft report due by May 2014, well past the September 2013 deadline indicated in the cooperative agreement.

The AOR said the mission rescheduled the evaluation because the mission wanted to avoid (1) involving staff in simultaneous or consecutive performance audit and evaluation data collection activities and (2) overwhelming and confusing local partners. In addition, the agreement officer, who was responsible for approving such changes, said he was not informed that USAID/Macedonia had even planned an award to meet the midterm evaluation requirement.

Because it did not complete the midterm evaluation by September 2013, USAID/Macedonia could not use the evaluation for its intended purpose, to determine halfway through whether to continue for 2 more years, modify, or discontinue the project entirely. Since the evaluation scheduled for 2014 was to produce a draft report in May 2014, mission staff and the implementing partner may have little time to make meaningful changes before the project ends in September 2015. Therefore, we make the following recommendations.

Recommendation 13. *We recommend that USAID/Macedonia determine in writing whether a midterm evaluation is still necessary. If it is not, document the determination and have the agreement officer modify the agreement accordingly.*

Recommendation 14. *We recommend that USAID/Macedonia notify its staff in writing that they and implementing partners must meet all terms and conditions of agreements and contracts unless the agreement officer modifies the agreement.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, the mission agreed with 11 of the 14 recommendations and partially agreed with the remaining three. The mission proposed acceptable alternative approaches to Recommendations 2, 3, and 10.

The mission reached a management decision on 13 recommendations. We are unable to acknowledge a management decision on Recommendation 3 because all the criteria for reaching a decision have not yet been met. We disagreed with the management decision on Recommendation 14 because the mission's response did not fully address the recommendation. We acknowledge final action on 12 recommendations.

Recommendation 1. The mission agreed and made a management decision to work with the implementing partner to develop a formal sustainability plan. Mission officials completed the sustainability plan and provided us with a copy. We acknowledge the mission's management decision and final action.

Recommendation 2. The mission partially agreed. Mission officials stated that grants to NGOs to train out-of-school, unregistered youth were discontinued after the second year of the project. Additionally, the mission discussed resuming work through NGOs to train disabled youth in employability skills alongside unemployed, unregistered youth so as not to segregate them from other youths. Because work with disabled youth was not within the scope of the audit, we cannot comment on that aspect of the mission's response. We acknowledge the mission's management decision and accept the discontinuation of grants to NGOs as final action.

Recommendation 3. The mission partially agreed and proposed a different approach to ensuring sustainability. Mission officials agreed to use Annual Operational Plans that will be developed and formally adopted by municipal councils in the project's fourth year, rather than successive amendments to existing MOUs or signing new MOUs to ensure the sustainability of interventions. Mission officials stated that as of May 2015, all seven municipal councils had developed and officially adopted multiyear strategic plans. They further stated that one of the councils had developed and finalized an Annual Operational Plan, another had drafted an annual operational plan, and the remaining five had developed a list of priority actions, none of which have been formally adopted by the municipal councils. We cannot acknowledge a management decision because the mission did not provide a target date for the development and formal adoption of annual operational plans by the municipal councils.

Recommendation 4. The mission agreed and made a management decision to instruct the implementing partner to sign an MOU with the Municipality of Strumica. Mission officials stated that an MOU with the Municipality of Strumica was signed on February 2014. We acknowledge the mission's management decision and final action.

Recommendation 5. The mission agreed. Three new mission orders on monitoring, evaluation, and portfolio reviews became effective on January 31, 2014. We acknowledge the mission's management decision and final action.

Recommendation 6. The mission agreed and made a management decision to instruct the implementing partner to include a separate section for reporting leverage in each quarterly report beginning with the report due January 31, 2014. Mission officials also requested and received a cumulative report of leverage for the first 3 years of the project. We acknowledge the mission's management decision and final action.

Recommendation 7. The mission agreed and made a management decision to ask the implementing partner to prepare a formal plan with projections for leverage in the fourth and fifth year of the project. Mission officials received this plan, and provided us with a copy. We acknowledge the mission's management decision and final action.

Recommendation 8. The mission agreed and made a management decision to develop a mission-wide PMP, which was completed in April 2014. We acknowledge the mission's management decision and final action.

Recommendation 9. The mission agreed and made a management decision to issue new mission orders on monitoring, evaluation, and portfolio reviews, which were issued January 31, 2014. We acknowledge the mission's management decision and final action.

Recommendation 10. The mission partially agreed and made a management decision instructing the implementing partner to revise its M&E plan to include a data reporting schedule, evaluation questions, and data collection methods; mission officials received the revised M&E plan in April 2014. However, mission officials disagreed that the implementing partner should include more indicators to track all project activities, and the mission's response does not indicate how performance information related to all project objectives and components of career service networks will be collected. We believe that the M&E plan would be more effective if it pulled together additional performance information from all activities contributing to the project. However, in light of the limited time available to update the M&E plan before the project's completion, we acknowledge the mission's management decision and final action.

Recommendation 11. The mission agreed and made a management decision to review the project's performance indicators and prepare a Performance Indicator Reference Sheet for each to ensure compliance with ADS 203. Mission officials approved the Performance Indicator Reference Sheets in April 2014 and provided us with a copy of the revised M&E plan. We acknowledge the mission's management decision and final action.

Recommendation 12. The mission agreed and made a management decision that compliance with the project's monitoring requirements would be done through a revised M&E plan complemented by Performance Indicator Reference Sheets. A revised M&E plan, incorporating Performance Indicator Reference sheets, was approved in April 2014, and the mission provided us with a copy. We acknowledge the mission's management decision and final action.

Recommendation 13. The mission agreed and approved a modification to the agreement, removing the requirement to conduct a midterm evaluation. We acknowledge the mission's management decision and final action.

Recommendation 14. The mission agreed and made a management decision to hold a presentation for the entire staff to explain the new mission orders. However, issuance of the new mission orders is not sufficient to address the recommendation, since the orders do not specifically inform mission staff that they and implementing partners must meet all terms and conditions of agreements and contracts unless the agreement officer modifies them. We acknowledge the mission’s management decision but disagree with it.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Performance Audits Division in Washington, D.C., conducted this performance 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 objective of the audit was to determine whether USAID/Macedonia’s Youth Employability Skills Network Project was achieving its main goal of enabling youths to participate in the economy through its training, capacity building, and public-private partnership-strengthening activities.

The audit covered the cooperative agreement awarded to EDC to implement the 5-year project that began on September 30, 2010, and is scheduled to end on September 29, 2015. The total amount of the award was originally nearly $6.7 million, augmented by non-USAID resources of $401,400, for a total of almost $7.1 million. On July 30, 2013, USAID/Macedonia obligated an additional $300,000 to help youths with disabilities. As of September 9, 2013, the mission had obligated more than $4.2 million and disbursed nearly $3.4 million for project activities. The audited amount was the total disbursed funds under this performance audit.

Audit fieldwork took place in Macedonia from August 14 through September 11, 2013, and covered FY 2011 through FY 2013. Fieldwork was conducted at USAID/Macedonia, the implementing partner’s office, and select activity sites in four of the seven municipalities covered by the project.

Methodology

To answer the audit objective, we verified the implementation of the project. We obtained a broad range of testimonial evidence by interviewing officials from USAID/Macedonia, the Government of Macedonia, the implementing partner, project partner institutions, and other relevant entities. We tracked USAID/Macedonia’s and the implementing partner’s progress by reviewing relevant documentation, including the cooperative agreement and its modifications; MOUs; mission project approval and monitoring documents; and the implementing partner’s annual work plans, baseline, quarterly, annual, and internal project evaluation reports. We also reviewed evidence for possible project overlap or conflict and checked for collaboration efforts with other U.S. Government projects during our site visits.

We tested a judgmental sample of data used by the implementing partner to measure and report on the project’s progress. We reviewed the performance indicators’ reported results, definitions, data sources, units of measure, baselines, and targets to test data quality. The sample selection of indicators was based upon adequate coverage of several project objectives, standard indicators, and various samples of disaggregated data on each of the selected indicators. The tested sample came from the project’s FY 2012 Annual Implementation Report. We noted no inaccuracies regarding the reported results on the sampled indicators.

In Skopje municipality, we interviewed USAID/Macedonia mission staff, EDC's project staff, NGO subcontractors, and officials from the Government of Macedonia's Ministry of Education and Science, Ministry of Labor and Social Policy, Vocational Education and Training Center, and Bureau for the Development of Education.

In Stip, Tetovo, and Gostivar municipalities, we visited several secondary schools and employment offices and interviewed municipal officials, council members, secondary school teachers, and staff at two schools in each of the municipalities, along with employment office staff, local employers, and NGO staff.

In planning and performing the audit, we assessed the significant internal controls used by USAID/Macedonia to monitor program activities. Controls included PMPs, M&E plans, progress reports, and other correspondence between USAID/Macedonia officials and the implementing partner. We also assessed significant internal controls used by the implementing partner to monitor its project implementers and project sites. We tested the data quality of the performance measurements and assessed the sustainability of and inclusion of women in the activities implemented under the project.

MANAGEMENT COMMENTS

USAID | MACEDONIA
FROM THE AMERICAN PEOPLE

January 31, 2014

To: **IG/A/PA, Director, Steven Ramonas**

From: **USAID/Macedonia, Mission Director, James Stein /s/**

Subject: **USAID Macedonia response to Audit Recommendations for USAID/Macedonia's Youth Employability Skills Network Project (Report no. 9-165-14-00x-P)**

Thank you for sharing with the mission the draft OIG performance audit report for the Youth Employability Skills Network.

We were pleased to host OIG for the performance audit in the period August 14 - September 12, 2013. We are also pleased that the auditors found that the project has indeed improved the ability of youths to participate in Macedonia's economy.

Regarding the recommendations for improvements put forth in the draft report received on January 2, 2014, below please find our management response and comments.

CC: David Stott, Regional Controller, USAID RFMC Bosnia and Herzegovina
CC: Denise Manning, Regional Legal Advisor, USAID Kosovo

I) Comments related to the introductory part of the Summary of Results:

1. On page (p.) 1, paragraph 1 indicates that "USAID Macedonia launched the Youth Employability Skills Network Project to reduce youth unemployment by helping close the skills gap between job seekers and skills needed by employers." This is not accurate because the project is working on the supply-side of the workforce and on labor mediation, but it does not stimulate the demand-side of the workforce, i.e., it does not have mechanisms to stimulate job creation. Rather, the objectives of YES Network which are listed on p.9 of the Cooperative Agreement (CA) are the following:

    - *Objective 1: Facilitate Public - Private Dialogue that will improve demand-supply labor exchange at the local level.*
    - *Objective 2: Strengthen the capacities of NGOs and DPOs for development of employability skills in youth.*
    - *Objective 3: Strengthen the capacity of the Employment Services Agency to provide better services to registered unemployed youth, including YWDs, such as training in work-readiness skills, access to structured work-based learning opportunities, and up-to-date information on job openings and career development opportunities.*
    - *Objective 4: Provide continuing professional development opportunities for teachers in secondary schools.*
    - *Objective 5: Create innovative mechanisms to make secondary schools and the VET Center more responsive and relevant.*
    - *Objective 6: Integrate productive connections with current and planned USAID and other donor workforce related activities.*

II) Comments related to the recommendations contained in the Summary of Results:

1. **The Mission agrees with this recommendation and will work with the implementing partner to develop a formal Sustainability Plan by May 1, 2014.** Nevertheless, we would like to note that we consider the project to have already achieved sustainable results such as: a) the introduction of new elective courses in vocational and, more recently, general secondary schools; b) a new service i.e. training course at the Employment Services Agency (ESA); and c) a forthcoming new service in both secondary schools and ESA of professional career counseling.

    Please note there are two distinct curricula, one for Work-readiness Skills (WrS) and one for Work-based Learning (WbL), that were approved by the Government of Macedonia for use in *all* secondary vocational schools nationwide as elective courses, and not only in the participating municipalities. In addition, after the OIG audit took place, a third elective subject entitled Career Planning was also approved by both the national Vocational Education and Training Center (VET Center) and the Bureau for Development of Education (BDE) for study in *both* vocational and general high schools. The Mission would like to highlight that it is very ambitious for a donor-funded project to be able to achieve such a result as introducing new curricula into a country's education system. We therefore are very proud of this accomplishment of YES Network, and even more so because the first elective was introduced as early as the second year of project implementation, thus ensuring the sustainability of the program in project schools.

In addition, since the OIG audit was completed, the Minister of Labor has requested that selected members of staff from all ESA offices are trained in WrS and WbL, and that Career Counselors are certified from all branch offices of ESA. The Ministry is willing to cost-share the training, and this will ensure the new services are available nation-wide and are sustainable. Demand for the WrS and WbL has also been increasing which indicates that, if ESA wants to be responsive to the needs of registered job-seekers, they will need to continue to offer these courses.

We are also convinced that by not working directly with youth to increase their employability, but rather by working to strengthen the education providers' and labor mediators' capacity to better prepare youth for employment, the project has been working in a participatory and sustainable manner from the beginning.

Finally, paragraph 2 on p. 4 discusses the sustainability of the donated equipment. The Mission would like to note that the maintenance, repair, and replacement of the equipment donated by the project to the schools and ESAs is covered in the Transfer Agreements that were signed with each school and ESA branch office upon the handing over of ownership of the donation.

2. **The Mission partially agrees with the recommendation to reassess if training programs for youth through NGOs are sustainable and has already taken action:** the project's grants to NGOs for training out-of-school unregistered youth in WrS was discontinued after Year 2. However, in July 2013, the project was awarded $300,000 by DCHA for assistance to persons with disabilities and the Cooperative Agreement was modified to add a component of reaching youth with disabilities as a particularly vulnerable group and increase their employability via provision of better access to training and labor mediation services. To reach as many youth with disabilities as possible, the project plans to partner with Disabled Persons Organizations (DPOs) as specialized NGOs that work with and for persons with disabilities, and pair them with non-DPO NGOs in order to deliver WrS and WbL training to youth with disabilities, without segregating them as a "special" group. By treating youth who are unemployed and unregistered with ESA as a single group, regardless of ability, youth with disabilities will be mainstreamed, which is one of the goals of USAID's Disability Policy.

   Furthermore, regarding paragraph 4 on p. 4 and issues with lack of sustainability of using NGOS to train youth, the Mission maintains that for this project, youth NGOs have been identified as *the only* vehicle for reaching youth that are out-of-school yet unregistered as unemployed, which is why NGOs had been engaged for training of this particular sub-group of youth. Yet, for the purpose of sustainable provision of services, DPOs and NGOs will direct youth they train towards the formal systems of employment preparation and mediation; i.e., towards registering with and using the services of the ESA.

3. **The Mission partially agrees with this recommendation and proposes a different approach to ensuring sustainability.** MoUs are statements of intent and not legally binding documents. They serve the purpose of recognizing mutual responsibilities of partners from the donor and the recipient side, rather than as a guarantee of sustainability. Amendments to existing MoUs or signing new MoUs with municipalities will not ensure the sustainability of interventions. The approach the project plans to take instead in order to ensure the sustainability of the Local Economic and Social Councils (LESCs) as documented in the project AWP for Year 4 (activity 1.2.8) is to work with the

LESCs to develop Annual Operational Plans that will be formally adopted by the municipal councils. The approval entails allocation of an annual operating budget in the current and next calendar year, and would more firmly ensure the LESC continue to operate.

4. **The Mission will instruct the implementing partner to sign a MoU with the municipality of Strumica by April 1, 2014 in order to comply with this recommendation**. However, we would like to underline that although the project does not have an MoU with this municipality, Strumica was the first municipality to a) form a LESC, b) conduct a local labor market analysis, c) prepare a Local Action Plan for Employment based on this analysis, d) request that six new profiles are opened in the textile VET school, e) receive approval from MoES for four of the six requested profiles and f) introduce four new vocational profiles which are in high demand by the labor market.

5. **The Mission agrees with this recommendation and we would like to suggest that this recommendation be closed.** We have three new Mission Orders, on Monitoring, Evaluation, and Portfolio Reviews, that are effective as of January 31, 2014. We will deliver a presentation of the new MOs for all staff in February 2014 to discuss roles and responsibilities in managing activities and monitoring progress. Furthermore, we would like to note that the AOR has bi-weekly progress meetings with the project to monitor progress. She reports progress to the Office Director in anticipation of the weekly Senior Staff meeting where Office Directors brief the Mission Director on project accomplishments and challenges. A more in-depth briefing for the Mission Director takes place at the bi-weekly meeting of each Development Objectives' team with the MD. Finally, the Mission will begin conducting portfolio reviews twice per year instead of only once as is the current practice.

6. **The Mission agrees with this recommendation, and has requested that the implementing partner includes a separate section for reporting leverage in the project Quarterly Reports beginning with the first quarter of FY 14 covering the period October to December 2013, which is due on January 31, 2014.** In addition, the Mission will request that the implementing partner submits a cumulative leverage report for the first three years of project implementation to document all leverage accumulated thus far. **This report will be submitted by March 15, 2014.**

   Furthermore, regarding comments in paragraphs 2 and 3, p. 5, ("Leverage Amounts Were Low, Inaccurate, and Not Reported Quarterly") which discuss issues with calculating, documenting, and reporting leverage, the Mission would like to clarify that USAID did not agree with the implementing partner that the salary of the teachers who are teaching new content/electives and of the ESA trainers who are delivering the new training, should be considered as leverage towards the project and its goals, but rather as proof of sustainability. Hence, the project was only reporting as leverage the cost-share by schools, ESA and municipalities for the items such as the establishment of the Career Centers and Job Clubs, and the documented cost-share by the youth NGOs for conducting training. Furthermore, please note that the Mission was indeed collecting this information, but *on an annual basis* rather than quarterly, hence there were only two reports (for year 1 and 2) at the time of the OIG Audit as the third year was not completed.

7. **The Mission agrees with this recommendation, and will request that the implementing partner prepares a formal plan with projections for leverage in the fourth and fifth year of project implementation and submit it by March 15, 2014**. The plan will be based on the cumulative report on all leverage raised by the project during the first three years of implementation mentioned above in the response to Recommendation no. 6**.**

8. **The Mission agrees with this recommendation and plans to develop a Mission-wide PMP in the period February – April 2014.** However, on p. 6, the report elaborates on the fact that the "Mission Did Not Have a Mission-Wide Performance Management Plan", that "the guidance in its M&E mission order was different from the ADS requirements", that "mission staff disclosed that they misunderstood the ADS requirements.", and that "mission officials said since they did not have a country development cooperation strategy, they did not have to have a mission-wide PMP." We would like to clarify that:

    a) The Mission did not have a Mission Order on M&E at the time the Strategy was approved (June 22, 2011) so its policy could not have been different from the ADS requirements at the time (effective since 09/01/2008) which were followed to the letter (ADS 203.3.3.4).
    b) The previous M&E Mission Order (approved on June 22, 2011) was in compliance with the revised ADS 203 so the statement in the draft audit report that "the M&E mission order maintains the use of PMPs for assistance objectives" is not accurate.
    c) The statement on p. 3, paragraph 3 stating that "the monitoring and evaluation specialist said that they were approved to maintain the mission's strategy in its old format" is incorrect. The M&E Specialist said that USAID Washington approved the USAID Macedonia Strategy as it was at the time and there was no further guidance as to whether it should be reformatted to reflect a CDCS.

9. **The Mission agrees with this recommendation and we would like to suggest that this recommendation be closed.** As mentioned above (Recommendation no. 5), we have three new Mission Orders on Monitoring, Evaluation, and Portfolio Reviews effective as of January 31, 2014 and we plan to conduct a presentation of the new MOs for all staff in February and discuss roles and responsibilities in managing activities and monitoring progress. Please also note that portfolio reviews will be conducted twice per year rather than once as has been the case in the past.

10. **The Mission agrees with this recommendation and will instruct the implementing partner to revise its M&E Plan to include a data reporting schedule, evaluation questions, and data collection methods. The revised M&E Plan will be submitted to the Mission for approval by March 31, 2014.** Please note that as the project's M&E plan, which contains such data, was under revision and was not approved by USAID at the time of the audit, the comments by OIG actually refer to the project's PMP, not its M&E Plan.

    In addition, the Mission will request that the implementing partner address issues with data disaggregation by activity, region, and target group. Regarding vulnerable populations, including ethnic minorities, we recognize that, as the project was working in four predominantly ethnic Macedonian (or somewhat mixed) municipalities and two predominantly ethnic Albanian municipalities, reporting by ethnicity may have been assumed as overlapping with reporting by municipality. This will also be addressed. As for age group, the project only works with one age group: 15 – 27.

We would like to note that the project monitors and reports on progress on a variety of levels and indicators, and we disagree that the implementing partner should include more indicators to track *all* project activities: the project M&E plan already has 19 performance indicators in the PMP although ADS203 stipulates that no more than 1 to 3 indicators are required per result. Considering that YES Network has 5 objectives, we believe the 19 project indicators plus the 3 standard indicators for the PPR are more than sufficient to track the success of project activities.

11. **The Mission will comply with this OIG recommendation by May 1, 2014.** The project's AOR and Mission's M&E Specialist will review the project's performance indicators and request that the project M&E Specialist prepares a Performance Indicator Reference Sheet (PIRS) for each performance indicator and thus ensure compliance with ADS 203.

12. **The Mission will comply with this OIG recommendation by May 1, 2014.** Compliance with the project's monitoring requirements will be addressed in the revised and M&E Plan and via the PIRSs.

13. **The Mission agrees with this recommendation.** Management is considering the implications of cancelling the performance evaluation, and the Cooperative Agreement will be modified if the Mission decides to cancel it. **A final decision by the Mission will be reached by February 28, 2014.**

14. **The Mission agrees with this recommendation.** We will address the role of CORs/AORs in ensuring they and implementing partners meet all terms and conditions of contracts and agreements and reiterate it in the presentation of the new Mission Orders for all staff in February 2014.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
http://oig.usaid.gov/
Audit Task No. 99100813