



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/SOUTHERN AFRICA'S LOCAL CAPACITY DEVELOPMENT ACTIVITIES

AUDIT REPORT NO. 4-674-15-003-P
AUGUST 31, 2015

PRETORIA, SOUTH AFRICA



Office of Inspector General

August 31, 2015

MEMORANDUM

TO: USAID/Southern Africa Mission Director, Cheryl L. Anderson

FROM: Regional Inspector General/Pretoria, Sarah E. Dreyer /s/

SUBJECT: Audit of USAID/Southern Africa's Local Capacity Development Activities
(Report No. 4-674-15-003-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 in Appendix II.

The audit report contains two recommendations to help strengthen the mission's activities. Given the information provided in response to the draft report, we acknowledge the mission's management decisions on both recommendations. Please provide evidence of final action to the Audit Performance and Compliance Division in USAID's Office of the Chief Financial Advisor.

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

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SUMMARY OF RESULTS

In 2010, USAID designed a set of reforms known as USAID Forward. Included in this were implementation and procurement reforms that called for USAID to raise the total amount of development assistance administered through governments, local organizations, and businesses to a global average of 30 percent by 2015. With this initiative, USAID sought to strengthen local capacity and improve the sustainability of its investments in the countries where it works.

African missions have led the way, increasing their use of local organizations, government, and the private sector to implement development assistance. USAID reported that its percentage of investment in local institutions in Africa rose from 7 percent to 10 percent between 2010 and 2012. In fiscal year 2012, USAID/Southern Africa obligated \$148.5 million to local nongovernmental organizations, the highest amount committed by any USAID mission.¹ USAID/Southern Africa reported that, as of September 30, 2014, about 47 percent of its \$842 million in total awards went to local partners.²

To help build the capacity of local organizations to manage these funds, USAID/Southern Africa:

- *Organized training sessions for USAID staff.* Between September 2013 and April 2014, the mission's local capacity development team organized eight sessions designed to strengthen employees' abilities to help local organizations comply with USAID's financial and administrative procedures (e.g., submitting accurate, complete, and timely reports and financial vouchers).
- *Conducted 30 preaward surveys to determine the type and level of capacity-building support local partners needed.* The surveys assessed (1) financial and managerial capacity to manage a USAID award in accordance with U.S. Government and USAID requirements, (2) the appropriate method of financing, and (3) the degree of support and oversight necessary to ensure proper accountability for funds should USAID establish an implementing partner relationship with the local organization.
- *Trained local partners to strengthen their capacity in areas the surveys identified as weak.*
- *Awarded three cooperative agreements to U.S.-based organizations, between fiscal years 2009 and 2013, to strengthen local partner organizations.* In April 2013, USAID facilitated a capacity development workshop with one of these partners.
- *Built capacity development funds into some health sector awards' budgets.*

¹ U.S. Government Accountability Office, *USAID Has Increased Funding to Partner Country Organizations but Could Better Track Progress*, GAO-14-355, April 16, 2014.

² These amounts come from the Agency's financial systems. On November 17, 2014, OIG issued *Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013*, Report Number 0-000-15-001-C, disclaiming an opinion because of material unsupported adjustments USAID made to reconcile its general and subsidiary ledgers. We did not perform any additional tests during this audit to verify the accuracy of the reported amounts. In fiscal year 2015 OIG anticipates testing USAID's adjustments to determine if they were accurate and appropriate. USAID intends to provide explanations and other support to demonstrate the adjustments' validity.

Additionally, the mission was about to begin recruitment of a full-time local systems specialist who would be responsible for working with technical teams to monitor the progress of the mission's local capacity development activities.

The Regional Inspector General (RIG)/Pretoria conducted this audit to determine whether USAID/Southern Africa's local capacity development activities improved aid effectiveness and sustainability by strengthening civil society organizations.

Auditors could not determine the extent to which activities had improved aid effectiveness and sustainability, but found anecdotal evidence of improvement. For example, USAID/Southern Africa's local partners mentioned the following activities, which improved their effectiveness and sustainability:

- Staff of the Association for Water and Rural Development said the implementation of an upgraded accounting system and the restructuring of the finance department, both done in response to the preaward survey, strengthened the association's internal controls.
- Staff of the NEPAD (New Partnership for Africa's Development) Business Foundation said they were able to develop work plans that better met USAID requirements after receiving training.
- Staff of mothers2mothers South Africa said that after USAID provided training on performance management plans, the organization was able to respond better to another international donor's request for a similar document.
- Officials from Witkoppen Health and Welfare Centre said that instituting USAID's preaward survey recommendations helped strengthen their financial systems to ensure better reporting to USAID and the South African Government.

Similarly, assessments of local partners' capacity in financial management, program management, monitoring and evaluation, external relations, and sustainability showed that mission activities improved effectiveness and sustainability:

- Strong and consistent communication between local partners and USAID technical staff resulted in prompt resolution of compliance issues.
- Meetings with other partners and government officials, organized by USAID staff, expanded local partners' networks.
- One-on-one trainings conducted by interdisciplinary USAID teams provided consistent guidance and information to all partners.

However, auditors noted these problems:

- The mission did not have an adequate system to measure progress (page 4). Developing mission indicators for capacity building was not straightforward or required, and mission officials held off, hoping the Bureau of Policy, Planning and Learning would do it. Further, the mission did not measure capacity at the outset to track improvements.

- The mission did not document its strategy for local capacity development (page 6). Consequently, mission staff did not understand the strategy and did not encourage beneficiaries to make full use of discretionary funds built into agreements.

Meanwhile, since audit fieldwork was completed, USAID’s focus has shifted to an initiative known as local solutions. Under it, missions are asked to emphasize the sustainability of local systems rather than building the capacity of single actors.³ With this shift in mind, RIG/Pretoria recommends that USAID/Southern Africa:

1. Develop indicators to measure the effectiveness of its local solutions activities (page 5).
2. Document its local solutions strategy and distribute it to staff and local partners (page 6).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of them begins on page 7.

³ As defined in USAID’s April 2014 publication *Local Systems: A Framework for Supporting Sustained Development*, local systems are “interconnected sets of actors—governments, civil society, the private sector, universities, individual citizens and others—that jointly produce a particular development outcome.”

AUDIT FINDINGS

USAID/Southern Africa Did Not Have an Adequate System to Measure Progress

USAID called for activities to strengthen local capacity and improve the sustainability of development activities. However, USAID/Southern Africa did not have an adequate system to monitor its progress toward this objective. Specifically, the mission indicators for capacity-building activities focused on inputs, and activity measures of progress were limited.

Mission Indicators for Capacity-Building Activities Measured Only Inputs. Missions were required to monitor and report on four USAID Forward sustainable development indicators:

- *Funding for programs implemented through local systems.*
- *The number of U.S. staff whose work plans and performance measures assess their direct engagement with local partners in support of local capacity development.*
- *Total value of public-private partnerships with a minimum of 1:1 leverage.⁴*
- *Percent of program funds dedicated to leveraging commercial private capital through the Development Credit Authority.⁵*

USAID/Southern Africa collected data on these indicators as required. However, the USAID Forward indicators measure only inputs, which is why *Local Capacity Development Suggested Approaches*, a supplement to Automated Directives System (ADS) 201, states that the indicators “are not sufficient to capture progress and results in [capacity development] activities supported through direct and indirect awards to local organizations.” To complement these indicators, the supplement states that projects with capacity development activities should use additional indicators tailored to the specific project. It then points to “illustrative output, outcome, and results indicators” for the monitoring and evaluation of local partners. Similarly, in its April 2014 report, the U.S. Government Accountability Office recommended that USAID develop additional indicators to monitor the progress of its local solutions activities.⁶

Despite mission officials’ acknowledgment that the standard indicators were not adequate, USAID/Southern Africa had not developed any of its own. One senior mission official agreed that the standard indicators for capacity development addressed only the magnitude and growth of assistance to local organizations, while another pointed out, “Our measure of success cannot be how much money we give local partners.”

⁴ Leverage refers to in-kind or cash contributions from the private sector toward a USAID-funded activity. Leverage that meets a 1:1 ratio equals that provided by USAID.

⁵ The Development Credit Authority allows USAID to provide partial loan guarantees to a private lender to “leverage” or magnify the financial resources needed to achieve a development objective.

⁶ This report was issued after the audited period but before the draft report and is consistent with the finding that additional mission indicators would help USAID/Southern Africa measure progress.

Though they had discussed adding indicators, mission officials offered several reasons why they did not:

- Identifying indicators that would work to measure the mission's diverse partners was difficult.
- A senior official expected the Agency's Bureau of Policy, Planning and Learning to take the lead in developing additional capacity-building performance indicators. This bureau formulates, communicates, and implements Agency policies on important functional, geographic, and multisectoral program issues, such as aid effectiveness.
- There is no ADS guidance, or other Agency requirement, on custom, mission-level indicators. According to a senior mission official, ADS guidance on custom indicators applies only to the development of performance indicators for projects and activities.

Though the mission initiated several approaches to strengthen organizational capacity, beyond the testimony and anecdotes offered by partners and mission staff, little can be said objectively about its success. To help improve the mission's ability to monitor progress as it changes strategy to align with the local solutions initiative, we make the following recommendation.

***Recommendation 1.** We recommend that USAID/Southern Africa develop indicators to measure the effectiveness of its local solutions activities.*

Measures of Activity Progress Were Limited. USAID's Performance Monitoring and Evaluation TIPS No. 15, "Measuring Institutional Capacity," printed in 2011, states that measuring organizational capacity can help USAID make strategic, operational, or funding decisions about capacity development interventions. The data that emerge may be used to establish baselines (reference points) and provide the basis for setting targets for improved capacity. Managers could then track and monitor changes over time.

However, USAID/Southern Africa did limited tracking of individual activities' improvement in aid effectiveness and sustainability. Officials had a sense for local partners' improved capacity based on the partners' implementation of recommendations from the preaward surveys. Still, according to a mission official, the information collected from the surveys was subjective and focused on the partners' readiness to receive USAID funding; it did not necessarily measure increased capacity.

USAID/Southern Africa focused on the preaward survey results because, as several mission officials noted, strengthening partners' capacity to manage U.S. Government funds was the primary focus of activities. Instruments to measure broader capacity, like USAID's organizational capacity assessment tool,⁷ were not widely used by the mission because mission leadership and agreement officer's representatives (AORs) interviewed were largely unaware of them. Of the few AORs who were familiar with the organizational capacity tool, most said they would have appreciated mission guidance and direction before they disseminated it to partners to use for self-assessment.

By not measuring local partners' progress, the mission could not assess the impact of its capacity development assistance to individual partners. However, since USAID's local solutions

⁷ The tool is a self-assessment tool that covers seven categories of organizational capacity, including governance and legal structures, human resource management, and project performance management.

initiative now prioritizes strengthening local systems over strengthening individual partners, we make no recommendation.

Mission's Did Not Document Its Strategy for Local Capacity Development

According to ADS 596.3.1, internal control activities such as appropriate documentation “help ensure that management directives are carried out” and contribute to the Agency’s ability to meet its objectives and achieve results.

Yet USAID/Southern Africa did not document its approach to local capacity development, which was part of the mission’s 2013-2017 Country Development Cooperation Strategy. Officials relied instead on broad USAID Forward guidance in the form of numerous documents. Rather than documenting its strategy, the mission focused on developing tailored approaches to implementing the USAID Forward guidance.

Without seeing the strategy compiled in a single document, mission staff were not well versed in it. Seven of the 11 AORs interviewed were unable to describe the goals and objectives of the mission’s local capacity development activities. Likewise, AORs acknowledged they had not always reminded local partners that they could use funding for broader capacity development needs after successfully meeting their preaward or special award conditions.

In turn, local partners, the primary beneficiaries of the mission’s strategy, were mostly unaware that local capacity development was a mission priority. None of the local partners received any documentation describing USAID/Southern Africa’s capacity development strategy. Four of the 11 partners said that they learned of the strategy while discussing local solutions with the auditor.

Consequently, some of the local partners had not taken full advantage of the resources available to them to strengthen their capacity. For example, two of the five local partners interviewed from the health sector had budgets containing \$200,000 per year for local capacity development, and one environmental partner was allocated \$225,000 for “internal capacity development to be used during the first three years of its five year agreement.” The agreements specified that partners could use these funds first to correct mission-identified weaknesses and then to address self-identified organizational needs or gaps. However, a representative of one partner said its top officials had not asked to use the funds because they were not aware they could.

To broaden understanding of USAID/Southern Africa’s local solutions strategy, and therefore its effectiveness, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Southern Africa document its local solutions strategy and distribute it to staff and local partners.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Southern Africa agreed with both recommendations. After reviewing the management comments and supporting documentation, we acknowledge that the mission made management decisions on both recommendations. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Southern Africa agreed, noting that the Agency is developing guidance for missions on performance monitoring, including indicators to use, under local solutions. Accordingly, the mission requested final action. However, because the mission must still adopt these indicators and adjust them for the local context, we are unable to acknowledge final action. Still, we agree that these actions will address the recommendation, and because officials said during subsequent discussion that all proposed activities would be completed by July 31, 2016, we acknowledge the mission's management decision.

Recommendation 2. USAID/Southern Africa agreed and decided to develop a strategic framework for local systems to distribute to staff and external stakeholders by July 31, 2016. The mission's planned actions will address the recommendation, and we acknowledge the management decision.

SCOPE AND METHODOLOGY

Scope

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

In planning and performing the audit, the auditor obtained an understanding of and assessed the mission's controls related to the management of its local capacity development activities. The management controls identified included how AORs and financial analysts monitored local partners, how the mission conducted and followed up on preaward surveys, how mission officials and implementers reported progress, how mission officials allocated budgets, and how financial management officials tracked expenditures. Documents reviewed to understand how mission officials and implementers designed these controls included the mission's country development cooperation strategy, the mission's 2013 and 2014 full performance plan and report, and the mission's quarterly financial pipeline reports. In addition, we reviewed the mission's self-assessment of management controls through its fiscal year 2013 Federal Managers Financial Integrity Act certification.⁸

The objective of the audit was to determine whether USAID/Southern Africa's local capacity development activities improved aid effectiveness and sustainability by strengthening civil society organizations. To make this determination, the auditor selected a judgmental sample of 11 bilateral and regional activities representing each of USAID/Southern Africa's five technical offices. Partners implementing these activities are listed in Appendix III. The selected activities accounted for \$72.5 million (8.6 percent) of the total \$842 million awarded to local civil society organizations during fiscal years 2012 and 2013.

Audit fieldwork was conducted from February 27 through March 15, 2014. The auditor conducted work at USAID/Southern Africa and at the offices of local partners in Johannesburg, Pretoria, Cape Town, and Hoedspruit, South Africa.

Methodology

To answer the audit objective, the auditor conducted a review of literature on organizational capacity and sustainability, and considered best practices from a variety of missions engaged in strengthening the capacity of local organizations. The auditor then obtained an understanding of USAID/Southern Africa's activities to strengthen organizational capacity and sustainability through a review of relevant Agency policies, USAID/Southern Africa mission strategies, and other documents such as preaward survey results and award conditions. Other documents included the USAID Forward, Procurement Reform, and Local Solutions reports published between 2011 and 2014, as well as ADS 201 and supplemental guidance on local capacity development.

⁸ Public Law 97-255, as codified in 31 U.S.C. 3512.

The auditor interviewed USAID/Southern Africa officials including those in senior leadership positions, technical and administrative office directors, financial analysts, agreement officers, and AORs. The auditor also interviewed principal officers from 11 local partners. The objective of the document reviews and interviews was to understand how strengthening capacity and sustainability featured in cooperative agreements and how the mission assessed, implemented, monitored, and reported on the capacity-building support it provided local partners.

In light of the largely anecdotal nature of the data available about the effectiveness of USAID/Southern Africa's capacity development assistance, the auditor developed a scorecard to assess data derived from interviewees. This scorecard was applied to a judgmental sample of mission activities, which was selected based on (1) dollar size of the award relative to the size of the technical portfolio, (2) technical area, (3) local partner's experience working with USAID, (4) regional and bilateral coverage, and (5) number of outstanding award conditions.

As shown below, the scorecard included 17 criteria in five categories of organizational capacity. Individual partner ratings were assigned based on interviews with the partners; input from USAID financial analysts that conducted postsurvey follow-up reviews; testing of the partner financial systems and administrative processes; and auditor observations, analysis, and verification.

Scorecard Criteria

Financial Management	Revenue sources support organizations' operations.
	Organization has written financial policies and procedures.
	Balance in cashbooks reconciles to bank statement monthly.
	Financial transactions have necessary supporting documentation.
	Internal audits are conducted annually.
	Program managers receive financial reports within 2 weeks of the end of month.
	Special award conditions have been met.
Program Management	Program reports met quality standards and met submission deadlines.
	Organization has developed a comprehensive, multiyear strategic plan.
	Organizational capacity assessment has been conducted, and needs and gaps prioritized.
	The right people are in place to achieve results.
	There is alignment between program description, activities, targets, and results.
Monitoring and Evaluation	Organization has developed and implemented a plan to monitor its capacity development.
External Relations	Organization has diverse contacts in the funding community.
	Organization maintains partnerships with a variety of stakeholders.
	Organization currently has systems to ensure it will continue should USAID funding end.
Sustainability	Organization has the organizational, human, and financial resources to continue its mission.

Since the data reviewed were generated from a judgmental sample, results and overall conclusions cannot be projected to all local partners. However, the auditor believes the selection provides a reasonable basis for conclusions. Because of the nature of the audit, no materiality threshold was established.

MANAGEMENT COMMENTS



5 August 2015

Memorandum

To: Sarah Dreyer, RIG/Pretoria

From: Cheryl L. Anderson, Mission Director, USAID/Southern Africa /s/

Subject: Management Comments to RIG/Pretoria's Audit of USAID/Southern Africa's Local Capacity Development Activities" (Audit Report No. 4-674-15-00X-P)

USAID Southern Africa appreciates the time and effort that the Regional Inspector General Pretoria's staff devoted to its work under the "Audit of USAID/Southern Africa's Local Capacity Development Activities" (Audit Report No. 4-674-15-00X-P), dated 23 June 2015. The Mission is grateful for the collaborative and consultative nature of the audit and feels that the outcomes of the audit are better because of it.

Since the end of the audit period the Agency and USAID/Southern Africa have continued moving forward on Local Solutions including hiring and on-boarding an exceptional Local Solutions Specialist to lead and coordinate local solutions efforts across the Southern Africa portfolio.

Below are Management Decisions related to this audit:

Recommendation No. 1: We recommend that USAID/Southern Africa develop indicators to measure the effectiveness of its local solutions activities.

As stated in ADS 203 additional help document TIPS 15 on Measuring Institutional Capacity, "indicators should be driven by the information needs of managers to inform strategic and operational decisions." TIPS 15 goes on to say, "by their very nature, measures of institutional capacity are subjective." The Mission's capacity development framework will include targets and appropriate quantitative and qualitative indicators of the inputs, outputs and outcomes of the Mission's capacity development efforts. In its comments to the April 2014 GAO audit regarding Local Solutions, the Agency stated that it would develop guidance for Missions on Local Solutions performance monitoring approaches, including indicators. USAID/Southern Africa will adopt, with appropriate adjustments for the local context, this guidance once promulgated by the Agency which is scheduled for December 2015.

Because this issue is being addressed at an Agency level the Mission considers this recommendation closed.

Recommendations No. 2: *We recommend that USAID/Southern Africa document its local solutions strategy and distribute it to staff and local partners.*

Management Decision: USAID Southern Africa concurs with recommendation two. Through its long history of working with local organizations to achieve development objectives, the Mission has tested and utilized various methodologies to develop the capacity and improve the sustainability of local organizations and local systems. Consistent with capacity development best practices and USAID policy, the Mission, as a partner in development with our local implementers, strives to help them achieve their organizational development goals, while the implementing partner itself bears primary responsibility for their own organizational development.

The Mission will consolidate its learnings from working with local organizations to develop a local systems strategic framework that clarifies how, when and why it will engage with local actors to develop the capacity of local systems. The Mission anticipates that this strategic framework will incorporate the use of capacity assessment tools, performance indicators, and organizational sustainability plans. Once completed, the Mission will distribute the strategic framework to staff to incorporate its principles into the development of future Country Development Cooperation Strategies and Regional Development Cooperation Strategies, as well as all Project Appraisal Documents. The Mission also will disseminate the strategic framework to external stakeholders to inform them of local systems priorities and approaches.

The local systems strategic framework will be completed by July 31, 2016.

Local Partners Included in Audit (Amounts Unaudited)

Technical Area	Local Partner	Activity Description	Total Estimated Cost (\$)	Period of Award
Education	Mindset Network	Produces videos promoting good teaching practices promoted as professional development tools for primary school teachers.	746,000	07/01/2012-06/30/2015
Economic Growth	South African Supplier Diversity Council	Promoted sustainable supplier diversity through business linkages.	1.5 million	04/04/2012-04/03/2015
Economic Growth	NEPAD Business Foundation	Engages in policy advocacy aimed at removing barriers to agricultural development, investment and trade.	3.0 million	06/11/2011-02/28/2015
Health	Africa Health Placements	Recruits and places volunteer medical professionals in rural clinics.	2.0 million	10/01/2012-09/30/2015
Health	Childline Mpumalanga	Provides support for families caring for orphans and vulnerable children in Mpumalanga Province.	11.0 million	11/05/2012-11/04/2017
Health	HIV SA	Provides support for families caring for orphans and vulnerable children in Gauteng Province.	4.6 million	10/30/2012-10/28/2017
Health	Witkoppen Health and Welfare Centre	Provides primary care, support, and referrals for priority populations in collaboration with the Department of Health.	14.8 million	10/01/2012-09/30/2017
Health	AgriAIDS	Implements HIV and tuberculosis prevention and wellness programs for farm workers.	7.1 million	01/16/2013-09/30/2017
Health	mothers2mothers South Africa	Provides technical assistance and education to local organizations working to reduce the spread of HIV.	22.6 million	12/19/2012-12/18/2017
Environment	Association for Water and Rural Development	Promotes resiliency in the Limpopo River Basin.	9.7 million	12/1/2012-11/30/2017
Democracy and Governance	University of South Africa	Promotes democratic election by providing training to elections officials throughout Africa.	3.1 million	06/20/2011-06/19/2016

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Audit Task No. 44100514