



OFFICE OF INSPECTOR GENERAL

AUDIT OF U.S. AFRICAN DEVELOPMENT FOUNDATION ACTIVITIES IN TURKANA

AUDIT REPORT NO. 4-ADF-14-004-P
MARCH 13, 2014

PRETORIA, SOUTH AFRICA



Office of Inspector General

March 13, 2014

Ms. Shari Berenbach
President
U.S. African Development Foundation
1400 Eye Street NW, Suite 1000, 10th Floor
Washington, DC 20005-2246

Dear Ms. Berenbach:

This letter transmits our final report on the audit of USADF's activities in Turkana. In finalizing the report, we carefully considered your comments on the draft report and included them in their entirety in Appendix II.

The report contains 14 recommendations for your action. They include questioned costs of \$16,109 (\$6,427 unsupported and \$9,682 ineligible), and \$42,696 in funds to be put to better use. Based on your comments, we acknowledge that management decisions have been reached on all 14 recommendations. USADF has taken final action on Recommendations 9 and 13; those recommendations are closed upon report issuance. Determination of final action on the remaining recommendations will be made by the foundation's audit committee, and we ask that we be notified upon completion of the proposed corrective actions.

Although we acknowledged management decisions on Recommendations 7 and 14, we disagreed with them. Please see pages 21 and 22 for a detailed discussion. If you choose to revise your management decision on any of these recommendations, please do so in writing. Significant management decisions that OIG disagrees with are reported in our semiannual report to Congress.

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

Sincerely,

Robert Mason /s/
Regional Inspector General/Pretoria

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Abbreviations

The following abbreviations appear in this report:

- APAD Agency for Pastoralist Development
- BMU beach management unit
- DLMC District Livestock Marketing Council
- LMA livestock marketing association
- RIG Regional Inspector General
- TUPADO Turkana Pastoralist Development Organization
- USADF U.S. African Development Foundation

SUMMARY OF RESULTS

According to the Kenyan Government, Turkana County—the area adjacent to Lake Turkana in the northwestern corner of the country—is the poorest and most remote county in Kenya. More than 70 percent of the people in this traditionally pastoralist society rely on food aid, and 20 percent are malnourished.

Although the county continues to suffer from humanitarian crises, it has the potential to address them. The U.S. African Development Foundation (USADF) launched the Turkana Food Security Program in March 2011, pledging \$10 million in project grants over 5 years to increase food security in the region and help inhabitants earn higher incomes. As of June 30, 2013, 29 grants worth \$5.2 million had been obligated, and the associated projects were at different stages of implementation. USADF grants are limited by law to \$250,000.

USADF's approach involves working with grantees to build their capacity while promoting ownership and sustainability of their projects. The foundation helps grantees develop proposals, business plans, and accounting systems they can use after USADF's grant ends. It also promotes sustainability by providing funding through a cooperative agreement to a local organization to build its capacity and help USADF's grantees.

In Turkana, USADF's partner organization, CEZAM and Associates Ltd., helps grantees develop and manage projects. The program's principal goals are to address chronic poverty, food insecurity, and unemployment in Turkana County, which complements the Kenyan Government's priorities and the U.S. Government's Feed the Future initiative. To achieve its goal, USADF is focusing primarily on community-based organizations in the livestock, irrigated agriculture, and fisheries sectors of the economy.

Livestock. Turkana's pastoral community has lost livestock during recurrent droughts and cattle raids by bordering tribes. Because of the region's culture and an absence of reliable marketing channels, pastoralists sell livestock for subsistence purposes rather than as a commercial enterprise. Efforts to promote commercial livestock sales have been hindered by limited working capital, a dilapidated sales infrastructure, and lack of transportation and marketing systems. USADF addresses these challenges by providing livestock marketing associations (LMAs)—which are comprised of local pastoralists—with improved infrastructure and market opportunities to increase livestock sales and individuals' incomes. USADF provides funds to community development organizations, such as the Turkana Pastoralist Development Organization (TUPADO), that directly oversee and support LMAs.

Irrigated Agriculture. Communities in Turkana County have established a number of irrigation systems along its two main rivers, the Kerio and the Turkwell. Some were built with the support of donors or the national government, and others without any outside help. However, most operate at very low capacities, have had their water intake gates washed away during floods, or do not provide enough water to farms during the dry season. Consequently, farm productivity has remained extremely low.

USADF has responded by issuing grants to renovate the systems with updated technology and water management systems. USADF also is providing high-quality seeds, assistance in diversifying crops and reducing post-harvest losses, and access to marketing systems to help communities increase their food security and incomes.

USADF generally implements irrigation projects in two phases. First, consultants conduct environmental, topographic, and feasibility studies to assess communities' current irrigation systems. Based on these studies, the consultants recommend appropriate crops and irrigation technology, and then design the improved irrigation system. The second phase consists of renovating or constructing the irrigation systems and helping farmers use them. USADF currently is in the second phase.

Fisheries. Lake Turkana provides opportunities for diversifying county residents' income. In Kenya, independent beach management units (BMUs)—member-based organizations that include local fishermen and marketers—coordinate all commercial fishing from lakes and rivers. A BMU is responsible to its members for making sure a beach is used, managed, and operated safely.

However, BMUs in Turkana are very weak and lack the necessary infrastructure and systems that help fishermen prosper. For example, the BMUs do not yet have refrigerated trucks to transport fresh fish to markets. Therefore, fishermen incur heavy losses and cannot penetrate distant markets because of the poor quality of their fish. USADF is working with BMUs to strengthen their management capability and to establish production and marketing systems.

USADF's food security program in Turkana has the potential to have a significant, sustainable impact. In addition, the discovery and continued exploration of oil in the county, along with the more recent discovery of underground aquifers, pose significant opportunities for economic growth—opportunities USADF could use in supporting sustainable local businesses.

The Regional Inspector General (RIG)/Pretoria conducted this audit to determine whether selected USADF projects in Turkana are achieving intended goals of increasing food security and promoting income generation. The audit concluded that they have not yet. The intended goals are longer-term outcomes that take more time to achieve than project outputs.

The audit found positive developments that could be attributed to the program, principally grantees' increased ability to operate their businesses and projects successfully. Nearly all grantees demonstrated knowledge and skills acquired through USADF's business and financial management training. They also expressed appreciation for the program and displayed a sense of ownership and responsibility toward their respective projects. Community members described the benefits of participating in USADF-supported projects. For example, one livestock owner said he used the profits from livestock sales at a newly constructed facility in Lodwar to start a motorcycle taxi business and continue his children's education. He said he also benefitted from a USADF-supported revolving loan fund and business training.

Despite these achievements, the audit found the following:

- USADF grantees made limited progress toward targets (page 5). Two of the Turkana program's three targeted sectors—irrigated agriculture and fisheries—have not yet begun producing desired outputs. Some of the delays occurred because of USADF's development model, which focuses on building the capacity of grantees to manage their projects before expanding activities. Still, we noted several situations that could have been avoided, like awarding a record number of grants, not having a partner organization in place at the outset, and high staff turnover.
- USADF did not fully follow its own project development policies (page 7). As a result, the foundation did not oversee project development activities in Turkana in compliance with its

policies. Three project development areas that need improvement are (1) selecting the appropriate type of grant, (2) selecting indicators and setting baselines and targets for measuring results, and (3) linking grantee budgets to outputs and deliverables.

- Grantees reported inaccurate, unreliable performance results (page 9). Contrary to USADF policy, livestock and fisheries grantees were over- and underreporting results significantly. (The irrigation systems had not been completed, so there were no results reported for that sector.)
- Two livestock grantees were underperforming (page 11). Napucho (an LMA supported by TUPADO) and TUPADO had numerous deficiencies despite their grant agreements and remediation plans. Napucho had poor financial and business management practices marked by weak internal controls. TUPADO had been working with a LMA in Lopur that had not reported on its performance for the past 6 months or used the livestock sale yard built with USADF funds.
- Grantees were not vetting and managing contractors adequately (page 14). Contrary to USADF's standard provision for procurement, three grantees were selecting contractors or consultants based on cost and were not contacting references or considering past performance. As a result, they got poor-quality goods and services.
- USADF did not clearly track progress in building its partner organization's institutional capacity (page 16). USADF did not track the institutional capacity-building indicators and results from the award with CEZAM in the annual work plans, nor were they included in its annual evaluation.
- USADF did not capitalize on opportunities arising from oil exploration (page 17). The foundation did not help grantees develop a strategy to benefit from the economic opportunities created by the presence of oil companies in the Lake Turkana region.

To address these problems, the audit recommends that USADF:

1. Review the Turkana portfolio of projects, and establish milestones and target dates for completing the remaining activities under each project (page 6).
2. Implement a process to make sure a new country program has a partner organization in place before making awards (page 9).
3. Implement procedures for the Turkana program to verify that grantees' budgets correspond to planned outputs and deliverables before making an award (page 9).
4. Document lessons learned during the start-up of the Turkana program, including the appropriate selection of grant type, and communicate those lessons to USADF and CEZAM employees who are responsible for reviewing new grants under the program (page 9).
5. Implement a plan to build CEZAM's monitoring and evaluation capacity (page 11).
6. In coordination with CEZAM, help all grantees establish monitoring and evaluation systems and internal controls for accurate reporting (page 11).

7. Determine the allowability of \$6,925 in questioned costs arising from Napucho's ineligible salary payments and unsupported cash withdrawals, and recover the amount determined unallowable (page 14).
8. Decide whether to put the unspent balance of the Napucho grant to better use based on the results of its upcoming financial audit, and document the decision (page 14).
9. Terminate a portion of its award with TUPADO for its work with the Lopur LMA and put unspent funds (currently \$42,696) to better use (page 14).
10. Determine the allowability of \$4,805 in ineligible questioned costs arising from payments made to Excellent Operations Contractors for services provided to Eliye Springs BMU that were not in accordance with the agreement terms, and recover the amount determined unallowable (page 16).
11. Determine the allowability of \$4,379 in questioned costs arising from payments made to Excellent Operations Contractors for services provided to Longech BMU that were not in accordance with the agreement terms, and recover the amount determined unallowable (page 16).
12. Require CEZAM to attend all tender evaluations to monitor and help recipients with the contractor evaluation and selection process, and require CEZAM to help grantees review all draft service agreements and contracts they have prepared to confirm that required provisions are included (page 16).
13. Identify and track key capacity-building indicators and the results to be achieved in its annual cooperative agreement with CEZAM, and implement procedures to verify that they are included in CEZAM's annual work plan and assessed during its annual evaluation (page 17).
14. In conjunction with CEZAM, help grantees implement a coordinated strategy through consultations with the Turkana County Government to capitalize on the opportunities created by oil companies in the Lake Turkana region (page 18).

Detailed findings follow, and the scope and methodology appear in Appendix I. The full text of management comments are in Appendix II, and our evaluation of those comments is on page 19.

AUDIT FINDINGS

USADF Projects Made Limited Progress Toward Targets

Within the first 2 years of the Turkana Food Security Program, USADF made 29 awards to local nongovernmental and community organizations.¹ The grant agreements describe each project's goal and any anticipated results such as planned outputs, outcomes, and key activities, which the grantees are graded on during biannual performance reviews. The performance indicators and outputs vary by grant type, sector, and grantee. For example, enterprise expansion grants typically include quantifiable performance indicators and targets for increased production and sales revenue. Operational assistance grants (planning grants), on the other hand, focus on building grantees' capacity.

During audit fieldwork, all projects in the three sectors were being implemented with enterprise expansion grants,² and USADF used production and sales revenue indicators to assess the program's impact on food security and income. However, the irrigated agriculture and fisheries sectors had not yet started producing results that could be attributed to the grants. Irrigated agriculture grantees were not producing crops because the irrigation systems were still under construction; therefore, the audit could not measure the change in crop yields. The BMUs were reporting the number of fish landed, or caught and brought to shore, and sales revenue; but the results were not attributable to USADF because it had not yet released the funds for boats and other fishing gear needed to increase production and revenue as planned.

In the livestock sector, the number of livestock sold and revenue from those sales varied by grantee. Table 1 summarizes reported results compared with two key indicators—revenue and production—during the program's first 2 years.

Table 1. Livestock Grantees' Performance for Years 1 and 2* (Unaudited)

Grantee	Indicator Type	Year 1 Target	Reported Result	% Achieved	Year 2 Target	Reported Result	% Achieved
DLMC	revenue	125,475,312	146,718,210	117	146,994,328	103,173,751	70
DLMC	production	72,471	18,389	25	79,719	21,574	27
Napucho	revenue	2,419,200	-	0	3,199,392	1,055,450	33
Napucho	production	4,320	-	0	4,968	1,919	39
TUPADO	revenue	-	139,102,410	NA	-	78,717,756	NA
TUPADO	production	-	-	NA	-	6,695	NA

* Year 1 for DLMC and TUPADO covers the period between July 2011 and June 2012. Year 2 performance information is only for July 2012 to March 2013 because the last quarter was not available at the end of our fieldwork. For Napucho, the Year 1 target was intended to cover September 2011 (when the grant was awarded) to August 2012.

¹ In FY 2011 USADF made 17 awards, most of which were capacity-building grants that expired after 1 year. During FY 2012, USADF awarded 7 grants that had been in implementation for about 1 year at the time of the audit. In FY 2013, 5 more were awarded and were too new to expect results at the time of the audit.

² The program's expired grants included planning grants, which were limited to the irrigated agriculture sector and microfinance activities.

Only one of three livestock sector grantees, the District Livestock Marketing Council (DLMC), met its first-year revenue target and was on track to meet its second-year target. Still, DLMC reported achieving less than a third of its production targets. Another grantee, Napucho, did not meet either of its production or revenue targets (page 11).

TUPADO's performance was difficult to assess because USADF did not require it to measure revenue and production indicators for the LMAs it was overseeing; therefore it did not set annual targets for them. To the extent possible, TUPADO included production and revenue figures in its quarterly reports to give USADF performance information for the duration of the agreement. Yet, there were still problems with the reported data and the performance of one of its LMAs (pages 9 and 11).

A variety of reasons contributed to lower-than-expected results. Turkana is a historically and culturally isolated area, and most donor support has been relief-driven and not development-oriented. Therefore, many local organizations have limited capacity and require extensive technical assistance. In addition, some delays, like training and preparing grantees for funding, were unavoidable because USADF's development model prioritizes building grantees' capacity once a new country program starts.

However, we found several problems that could have been avoided.

- At the outset of the program, USADF signed 17 new awards worth about \$2.2 million—the largest number of new awards signed in 1 year since the foundation was created in 1980. While this was hailed as a significant accomplishment, the record number of new grantees overextended available staff and contributed to inadequate project development for those grants (page 8).
- The country program was launched in March 2011, but USADF did not have a partner organization in place to help grantees until 6 months later (September 2011). Moreover, the partner organization was not fully staffed until February 2012.
- The first 2 years of the program were marked by significant staff turnover at all levels. For example, at USADF's field office, the program assistant has been serving as the program coordinator since August 2012. At the USADF office in Washington, there was turnover among the analysts and staff who oversaw the Turkana program. At CEZAM, the program coordinator position, which oversees work across program sectors, was vacant for 6 months, and the financial management officer did both jobs. Finally, among the grantees, there was turnover in program coordinator and accountant positions—the two positions for which USADF provides salary support.

Because of these factors, USADF projects were not yet able to achieve their goals of increasing food security and incomes. Grantees were frustrated by the pace of project implementation and expected to realize gains sooner. The slow progress risks damaging the reputation of USADF's program and its investment in Turkana. Therefore, to help these projects reach their goals, we make the following recommendation.

Recommendation 1. *We recommend that USADF review the Turkana portfolio of projects, and establish milestones and target dates for completing the remaining activities under each project.*

USADF Did Not Follow Project Development Policies

The section 200 series in USADF's manual governs the development and management of its projects. Sections 202 and 211 provide guidance on various aspects of project development such as the purpose and use of different types of grants, budget formulation, and responsibilities for project selection and development. USADF's regional program director ultimately is responsible for selecting projects and overseeing project development activities. In addition, USADF's local partner organization screens prospective grantees and works closely with them in project development.

Despite these policies, USADF did not always follow them when developing its Turkana projects. Some of the main problems in their design and development were selecting the appropriate type of grant, selecting performance indicators, determining baselines and targets, and linking grantee budgets to project outputs and deliverables.

Types of Grants. Section 202 provides guidance on the purpose and use of operational assistance grants. They cannot exceed \$100,000 and are designed to develop the organizational and management capacity of grantees that do not have sufficient capabilities but do have proposed projects with considerable potential to succeed. Therefore, operational assistance grants are intended for "organizations [that] need a more gradual path towards enterprise growth and expansion." Through these grants, USADF can help grantees manage investment capital and establish or improve their operational processes, business management capabilities, and financial systems. Recipients of operational assistance grants may be considered for a subsequent expansion grant, which is limited to \$250,000 and is designed to expand a grantee's operations and activities.

However, despite the limited capacity of grantees in the livestock and fisheries sectors, USADF awarded 3-year expansion grants with capacity-building requirements instead of operational assistance grants, with the approval of the former USADF president. To help grantees comply with USADF's environmental and financial management requirements and receive funding for capital expenditures, the foundation intended to train the grantees within the first 6 months of the grants. However, the BMUs did not complete their environmental impact assessments until the second year and were still developing their business plans. One livestock sector grantee, Napucho, had not met its financial certification requirement (page 11).

These key activities, along with capacity-building training, form the primary focus of operational assistance grants. In retrospect, USADF and CEZAM employees agreed that it would have been beneficial to have awarded the operational assistance grants before the expansion grants, in accordance with USADF policy.

Performance Measures. According to Section 211, selecting indicators, determining baselines, and setting targets should be developed in partnership with the prospective grantee to reflect the goals of the proposed project accurately. To assist in this process, CEZAM provides analytical products such as historical production volumes and current market prices for livestock and fish varieties. These help determine baselines and set realistic annual performance targets.

However, not all grantees benefitted from this analyses. Likewise, the methods used in selecting indicators, determining baselines, and setting targets varied among grantees within the same sector, making it difficult to compare performance.

- *Indicators.* Not all grantees within the same sector were required to measure performance against the same indicators. While most livestock grantees measured performance against USADF’s standard production and revenue indicators according to the terms of their grant agreements, the LMAs working with TUPADO did not have such indicators or associated targets. TUPADO’s award for overseeing the LMAs, which was a cooperative agreement rather than a grant, included only two indicators—both unrelated to production and revenue.
- *Baselines.* Baselines were sometimes set using anecdotal accounts of production and sales and at other times simply recorded as “0” to reflect a lack of information. For example, grantees in the irrigated agriculture and fisheries sectors did not have baselines established because they were not recording production and sales figures before receiving USADF funds. This also made it difficult to develop realistic performance targets.
- *Targets.* Annual performance targets were not always realistic or achievable. According to the BMUs, the USADF-hired consultant relied only on data from the high-catch season to establish their annual targets and did not account for seasonal fluctuations. For example, an official with one BMU said because their annual target was unrealistic, they would achieve only 70 to 75 percent.

However, one grantee’s sales revenue target was more than 114 million Kenyan shillings (more than \$1.3 million) and another BMU’s targets were between 12.6 million and 16.8 million shillings (about \$144,828 to \$193,103). CEZAM officials said a BMU would have to fish Lake Turkana dry to earn 114 million shillings.

Budget Formulation. Section 211 of the manual requires that a “reasonable effort should be made during project development to establish budget levels based upon realistic projections that are expected to be incurred during the implementation of the project.”

Nonetheless, grantee budgets were not linked to project outputs and deliverables. For example, the three BMUs received budgets that included the development of business plans, which USADF required to be completed before providing funds to purchase boats and fishing gear. Although the business plans were included in the budget, they were not included in the grantees’ required deliverables. Also, two of the three BMUs did not receive corresponding funding for two required activities: financial management training³ and an environmental impact assessment (which was negotiated and performed in conjunction with another BMU’s assessment). Only one BMU had an appropriately developed training and technical assistance budget, which was about 1 million shillings (\$11,500), or 2.5 times more than the others’ budgets.

In another instance, irrigation grantees received funding for maintenance and repairs training without being required to develop a maintenance plan. The grantees’ greatest concern, based on their prior experiences, was the durability of irrigation canals given their susceptibility to filling up with silt and collapsing during heavy rains and flooding. Grantees said a maintenance plan would help preserve the irrigation improvements while promoting ownership.

USADF did not exercise prudent management in following its own guidance and fulfilling its oversight responsibilities. This happened because once the Turkana program began after about 2 years of negotiations with the Kenyan Government, the regional program director wanted to start awarding grants quickly to meet the annual target of \$2 million in new grants. So 17 were

³ USADF amended the budget subsequently to fund the training.

signed in the first year—a record number of awards when the average is typically 5 to 6 grants. Moreover, starting in February 2011, USADF awarded those initial grants before it had a local partner organization in place to assist grantees. In the absence of a partner, USADF relied on two members of its field staff until September 2011, when CEZAM came on board.

According to the regional program director, the foundation did not always use the smaller operational assistance grants for initial grantees, opting instead for expansion grants with capacity-building requirements. USADF made these decisions at the grantee's request and after consulting with project development staff and getting approval from USADF's former president.

The review process for newly developed projects did not include sufficient controls to identify the weaknesses in performance measures and budget formulation described above. Although USADF policy requires a compliance review before awarding each grant, that process does not include procedures to review the reasonableness of performance measures or to verify that budget line items correspond to deliverables and outputs, and vice versa.

As a result, the Turkana program faced delays, confusion among grantees about USADF's processes and requirements, and frequent budget amendments to produce required deliverables. Weaknesses in project development also contributed to the poor performance of two grantees (page 11). Consequently, this audit makes the following recommendations.

Recommendation 2. *We recommend that USADF implement a process to confirm that a new country program has a partner organization in place before making awards.*

Recommendation 3. *We recommend that USADF implement procedures for its Turkana program to verify that grantees' budgets correspond to planned outputs and deliverables before making awards.*

Recommendation 4. *We recommend that USADF document lessons learned during the start-up of the Turkana program, including the appropriate selection of types of grants, and communicate those lessons to USADF and CEZAM and Associates Ltd. staff who are responsible for reviewing new grants under the program.*

Grantees Reported Inaccurate, Unreliable Performance Results

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that internal controls promote the appropriate documentation of transactions, that transactions are recorded accurately and in a timely manner, and that performance measures are accurate. To this end, Section 533 of USADF's manual states that "the Foundation's in-country partners and other local experts will provide the necessary training to [USADF] grantees to ensure that they can effectively meet [USADF's] financial management, accounting, and reporting requirements." Moreover, Section 231 states that the partner organization is responsible for reviewing the grantee's quarterly report, which includes performance indicators, and working with the grantee to confirm the report is complete and accurate.

Performance indicators measuring production and sales revenue were most reflective of grantee progress in the Turkana program. However, in reviewing the indicators for livestock and

fisheries grantees, we found significant problems with the data's quality. (The irrigation systems had not been completed, so there were no results reported for that sector.)

Performance Results for LMAs. TUPADO did not have adequate internal controls to verify that performance results were accurate. Its four LMAs are responsible for reporting their daily sales to TUPADO on a monthly basis. Because of poor transportation and communications, TUPADO typically received the reports 2 to 3 months late. To compensate, it contacted the LMAs daily via mobile phone to obtain sales information. Therefore, the results from the daily phone calls should equal each LMA's monthly summary, and the aggregated monthly summaries for all four LMAs should equal the total reported in TUPADO's quarterly report.

However, this was not the case because TUPADO did not review or update the quarterly reports once the paper monthly summary reports were received. Based on the January to March 2013 monthly summaries:

- The LMAs recorded 39 percent more sales revenue than TUPADO reported.
- The LMAs' records showed 99 percent more small stock sales than TUPADO reported.
- TUPADO reported 44 percent more large stock sales than the LMAs recorded.

In addition, the Lopur LMA had not provided a monthly summary report to TUPADO for 5 months at the time of audit field visits in August 2013.

Napucho, another livestock grantee, reported results only for January to March 2013 even though the grant was awarded in September 2011. They included the number of chickens sold and the resulting sales revenue. However, the figure reported was based on a specific batch of chickens sold and not actual quarterly performance, which was inconsistent with other livestock grantees. For example, Napucho recorded the number of chickens sold from December 2012 until April 2013 for its January through March 2013 results.

Performance Results for BMUs. Although none of the BMUs had received boats and fishing gear, they reported quarterly results to USADF as part of developing their performance measurement ability. However, all three BMUs calculated results differently for the same indicators. One grantee calculated the same indicator differently over three quarters. Moreover, reported results were not documented adequately, and one BMU was not including all active landing sites.

Although USADF and CEZAM were aware of some of these problems, they were unaware of the extent and variety of them because CEZAM was not verifying performance data with source documentation or providing sufficient guidance to grantees. CEZAM lacked sufficient monitoring and evaluation capability to mentor grantees adequately, even though the USADF award included funding to develop it. Without that capability, CEZAM has not been able to train and mentor grantees.

High staff turnover and lack of documented monitoring procedures have contributed to these problems. The audit found that none of the grantees had documented significant components of their monitoring and evaluation systems, such as internal control procedures, indicator definitions, and data sources. Instead, grantees relied on the institutional memory of their project accountants or coordinators. This hurt performance reporting because many grantees have employed two to four accountants over the first 2 years of the program. Grantees said the USADF-funded salaries were not competitive enough to attract and retain quality staff. USADF

officials said staff salaries must eventually be borne by the grantee, and offering higher initial salaries would make it harder for grantees to maintain them after funding ends.

Due to inaccurate and unreliable performance results, USADF cannot determine how its grantees are performing, which could lead to making management decisions based on incorrect, incomplete information. In addition, the grantees are losing the opportunity to learn how to assess performance results and use them to make decisions. The inability to provide accurate reports also hurts grantees' ability to attract potential future investments from other donors, financial institutions, and investors. Therefore, we make the following recommendations.

Recommendation 5. *We recommend that USADF implement a plan to build CEZAM and Associates Ltd.'s monitoring and evaluation capacity.*

Recommendation 6. *We recommend that USADF, in coordination with CEZAM and Associates Ltd., help all grantees establish monitoring and evaluation systems and internal controls for accurate reporting.*

Two Livestock Grantees Were Underperforming

USADF policy requires that a grantee undergo "formal remediation" when its performance consistently is substandard. This aims to correct the underlying causes of poor performance while promoting effective use of USADF resources. To do this, USADF may change core components of a grant under remediation, such as its duration, budget, activities, and required outputs. USADF may decide to end a remediation plan prematurely if the plan is not working. Furthermore, per Section 245 of the foundation's manual, USADF may terminate a grant agreement, in whole or in part, at any time for cause or for convenience.

Following the program's April 2013 biannual performance review, seven grantees were placed under remediation. Five were BMUs that were still developing their business plans and not yet fully operational. USADF expects the BMUs to improve their performance before the next biannual performance review.

The remaining two were Napucho and TUPADO, both in the livestock sector. Neither grantee met the target dates for critical actions outlined in its remediation plan. We found the following problems.

Napucho. USADF awarded an expansion grant to Napucho to build the capacity of its 50 members and to increase poultry production. However, more than 18 months later, Napucho was placed under remediation after its project rating fell from "performing" to "at-risk." The organization continued to have a weak financial management system with no internal controls over its bank account withdrawals, payroll transactions, and accounts receivable. For example:

- There were instances of large, round sums of cash withdrawn around the time of equipment purchases, but they could not be traced to receipts or other documentation. Although the auditee said some project-related equipment was purchased with the cash instead of through direct payments from its account, the audit found that cash transactions totaling \$3,247 were not documented adequately, contrary to Office of Management and Budget Circular A-122, Attachment A, Section 2.g.

- Napucho paid its previous program coordinator for 7 months despite his incomplete, unauthorized timesheets; it also paid a full month's salary to an employee who started working in the middle of the month. These expenses totaled \$3,678 (\$3,180 unsupported and \$498 ineligible). In addition, Napucho was not withholding statutory payroll deductions for two employees. If Napucho subsequently paid these amounts to Kenyan authorities without seeking reimbursement from those employees, then USADF would be overcharged. There also was an instance in which one check for the salaries of three employees was made payable to one employee.
- The organization would often sell chickens on credit. However, many credit balances were at least 6 months past due, and Napucho did not have an adequate accounts receivable system to monitor account balances, enforce collections, and determine who should not be allowed to buy chickens on credit.

Moreover, Napucho lacked sufficient management skills. For example, it could not calculate the cost of raising a single chick from when it was purchased at 1 day old to being ready for sale at 8 weeks. Thus, when Napucho purchased large batches that it could not sell when the chicks were 8 weeks old, the employees did not know how much they could lower their prices to sell the chicks, save the additional cost of feeding them, and still make a profit. Napucho resorted to slaughtering and freezing a large number of chickens, which it either sold for much less than the target price or lost outright when the freezers lost electricity and the chickens spoiled.



Some 750 chickens live in one of Napucho's two poultry pens. (Photo by RIG/Pretoria, August 26, 2013)

A major reason for these problems was that USADF bypassed the planning grant and awarded an expansion grant to Napucho without confirming its financial management capacity. CEZAM's financial officer said Napucho was given a provisional financial certification, which should have included a training plan and reassessment, before it got the grant. To date, Napucho has not received full financial certification. USADF officials admitted that there was no reassessment because the grantee had "slipped through the cracks."

For Napucho to become a sustainable and profitable business, USADF and CEZAM will need to work closely with it to develop effective management skills and a sound business model. Alternatively, USADF could put the remaining grants funds to better use. USADF has scheduled a financial audit of the grantee within the next few months, which should help inform the foundation's decision.

TUPADO. USADF awarded two cooperative agreements to TUPADO to build its capacity as a community development organization and to provide grants to four LMAs. However, one of the LMAs, Lopur, lacked operational and managerial ability and, contrary to USADF policy, had questionable potential for success.

- Contrary to other LMAs, the Lopur livestock sale yard area was never used as an informal market before the grant. Therefore, after construction of the sale yard, instead of using it, members continued to rely on selling to a nearby refugee camp or through another yard in neighboring Kakuma (also supported by TUPADO).
- Lopur did not apply USADF-funded training or comply with USADF requirements. Despite receiving financial management training, the LMA did not record sales regularly and report them monthly to TUPADO as required. For example, the members had not reported sales for more than 5 months at the time of audit fieldwork in August 2013. In addition, LMA members could not provide any documentation to substantiate performance reporting, and none of the members present were willing to retrieve records for the audit team.



USADF funds helped build this livestock sale yard in Lopur. Yet most sellers conducted business outside of it. (Photos by RIG/Pretoria, August 17, 2013)

The Lopur LMA was established in May 2011, only 2 months before TUPADO signed its agreement with USADF. And even though the LMA did not have any history or demonstrated potential for success, USADF and TUPADO selected Lopur for USADF funding. Furthermore, despite discussions among TUPADO, CEZAM, and USADF officials about the yard's viability and whether to continue USADF funding, neither CEZAM nor USADF questioned TUPADO's decision to continue to support Lopur, nor did they ask for a documented rationale or analysis for this decision.

Without having demonstrated the potential for success, USADF's investments in building capacity and expanding local organizations' enterprises will not be a fruitful endeavor. USADF funds could be better spent on other community organizations that are better positioned to meet

the intent of USADF's program. Therefore, we make the following recommendations to improve the efficiency of the Turkana program.

Recommendation 7. *We recommend that USADF determine the allowability of \$6,925 in questioned costs (\$6,427 unsupported and \$498 ineligible arising from Napucho's ineligible salary payments and unsupported cash withdrawals), and recover any amounts determined to be unallowable.*

Recommendation 8. *We recommend that USADF determine whether to put the unspent balance of the Napucho grant to better use based on the results of its upcoming financial audit, and document its decision.*

Recommendation 9. *We recommend that USADF terminate a portion of its award with the Turkana Pastoralist Development Organization for its work with the Lopur livestock marketing association and put the unspent funds (currently \$42,696) to better use.*

Grantees Were Not Vetting and Managing Contractors Adequately

According to USADF's standard provision for procurement,⁴ grantees should award contracts only to "responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement." Additionally, when selecting a contractor, the grantee should consider "integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources."

The provision also requires all contracts worth more than \$10,000 to include remedies for a violation or breach of contract terms.⁵ They should include provisions for termination if the contractor defaults, including how the termination will take effect and the basis for settlement.

Despite these requirements, some grantees conducted little or no due diligence when selecting contractors. Those grantees said they did not verify prior employment or contact references; one said they trusted the reference letters they received.

CEZAM officials said that although grantees had established procurement committees, they had not always adequately assessed bidders during the evaluation process. For example, one committee ranked a bidder who did not adequately document past irrigation construction experience higher than other candidates did. Grantees confirmed that contractors often were selected based on the lowest bid without considering past performance or integrity. The audit also found that some grantees executed agreements that omitted provisions about a breach of contract or termination.

Because of these factors, some USADF activities were hampered by delays and deficient work. The audit team observed that:

⁴ The standard provision for procurement in cooperative agreements and grants contains the same language, but has different references. For cooperative agreements, refer to Standard Provision 14, Section a.3.iv; for grant agreements, Standard Provision 16, Section a.3.iv.

⁵ For cooperative agreements, refer to Standard Provision 14, Section b.1; for grant agreements, Standard Provision 16, Section b.1.

- Construction at LMAs supported by TUPADO was substandard. At the Lopur LMA, the contractor partially demolished the pit latrine it constructed because it did not follow the agreement's specifications and used poor-quality materials. CEZAM officials also said the roof of the large livestock holding pen was flimsy and not attached to the structure properly. Construction for the LMA's offices and water facility had not begun. The contractor was supposed to finish building the fence around the livestock sale yard and other specified structures by December 31, 2011, yet this work was still ongoing as of August 30, 2013.

Furthermore, the contract was not in accordance with USADF's standard provisions. For example, the only termination clause in the agreement referred to a period of 30 days to construct the sale yard, after which the agreement would be null and the contractor not liable for the incomplete work. There were no remedies for breach of contract. Finally, Lopur LMA members said the contractor owed them wages.

At the Lokichoggio LMA, construction also was ongoing although it was scheduled to be finished by September 2012. The audit team observed a partially collapsed fence, large cracks in the water tank and alongside the pit latrine, and water damage and missing electrical wiring in the office block. TUPADO officials said they are withholding final payment to the contractor until all work is completed satisfactorily, in accordance with the contract.



The partially demolished pit latrine at Lopur (left) and a collapsing fence at Lokichoggio (right) are two examples of shoddy work done for a USADF-funded project. (Photos by RIG/Pretoria, August 17, 2013)

- BMU business plans were plagiarized. The BMUs for Eliye Springs and Longech hired Excellent Operations Consultants to prepare their business plans, which they are required to give USADF so they can get boats and fishing gear. However, in both cases the plans contained roles and responsibilities plagiarized from position descriptions found on the Internet. One used material taken verbatim from a credit management policy from the United Kingdom that was posted online. In addition, the plans did not include fundamental elements such as production and cost estimates.

Because USADF did not approve the business plans and did not fund the boats and fishing gear, the two BMUs lost about a year's worth of potential revenue increases. The Eliye

Springs BMU paid \$4,805 and the Longech BMU paid \$4,379 for their respective business plans. We consider these to be unreasonable charges against the BMUs' agreements with USADF pursuant to OMB Circular A-122, Attachment A, Section 2.a. because the BMUs did not demand a refund or otherwise attempt to recoup these funds. Ultimately, CEZAM helped the BMUs prepare acceptable plans.

These problems occurred because grantees did not always involve CEZAM in the procurement process, and that led to inadequate vetting. Although CEZAM can give grantees lists of potential contractors and help procurement committees evaluate bids, it does this only on request. Similarly, although CEZAM gave grantees templates for agreements and asked them to submit draft agreements for review, grantees had not done so. CEZAM staff said they may not be receiving all agreements for review and that USADF has not required them to do so.

To strengthen USADF recipients' contractor vetting and management, we make the following recommendations.

Recommendation 10. We recommend that USADF determine the allowability of \$4,805 in ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to Eliye Springs beach management unit that were not in accordance with the agreement terms, and recover from Eliye Springs beach management unit the amount determined to be unallowable.

Recommendation 11. We recommend that USADF determine the allowability of \$4,379 in ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to Longech beach management unit that were not in accordance with the agreement terms, and recover from Longech beach management unit the amount determined to be unallowable.

Recommendation 12. We recommend that USADF implement a policy that requires CEZAM and Associates Ltd. to attend all tender evaluation meetings to monitor and assist grantees in the contractor evaluation and selection process, and require CEZAM to help grantees review all draft service agreements and contracts they prepare to confirm that they include all required provisions.

USADF Did Not Clearly Track Progress in Building Its Partner Organization's Capacity

According to Section 211 of USADF's manual, the foundation generally awards a cooperative agreement to a local organization to build its capacity to support grassroots entities. The cooperative agreement between USADF and CEZAM lists the institutional capacity-building indicators and 12 expected results, including:

- Improved monitoring and assessment, as shown by the timely identification and correction of problems that grantees may have.
- Effective assistance to grantees in all stages of project implementation, as evidenced by productive approaches to project planning, design, and implementation.

- Enhanced ability to assess the capabilities of local consultants and experts to provide technical assistance and training to grassroots entities, demonstrated by the quality of the technical assistance and training those entities received.

Additionally, Section 232 requires USADF to assess the performance of its partner organization annually by comparing it to the work plans.

However, USADF did not track CEZAM's performance in meeting the indicators or results, and it did not use them in CEZAM's annual evaluation. The indicators and results were not incorporated into annual work plans and thus were not evaluated during the annual performance appraisal.

USADF has not tracked these items for CEZAM because it was not a systemic practice at the foundation to do so. Although the cooperative agreement included standard results and indicators, and the foundation relied on standard templates for its annual work plans and performance evaluations of partner organizations, it did not have procedures in place to verify that capacity-building results from the agreement were included in annual work plans and assessed accordingly.

The Office of Inspector General raised this problem previously in a 2012 audit of USADF's activities in Cape Verde (No. 7-ADF-12-008-P). In response, USADF updated its partner assessment tool to incorporate capacity-building indicators from cooperative agreements into annual work plans and develop guidance on target dates for achieving expected results.

However, these changes were not made in the Turkana program. It is a missed opportunity in understanding, learning, and evaluating the impact of USADF's development model. The foundation could enhance the Turkana program by measuring results and effectively building CEZAM's institutional capacity as envisioned in its cooperative agreement. Therefore, this audit makes the following recommendation.

Recommendation 13. *We recommend that USADF identify key capacity-building indicators and the results to be achieved in its annual cooperative agreement with CEZAM and Associates Ltd., and implement procedures to verify that they are included in the annual work plan and assessed during CEZAM and Associates Ltd.'s annual performance evaluation.*

USADF Has Not Capitalized on Opportunities Arising From Oil Exploration

One of USADF's strategic priorities is "addressing social development needs and ensuring lasting economic results." To this end, USADF stated in its fiscal year 2012 financial report that "in cases where the right opportunities exist, USADF helps marginalized populations develop their capacity to join the global economy." Furthermore, USADF's agreement with CEZAM stipulates that the partner organization build links among the local government, donors, and the private sector to raise awareness of economic development opportunities, demonstrated by increased investment and more support for grassroots communities assisted by USADF.

Currently, major international firms such as Tullow Oil are conducting oil exploration activity in the Lake Turkana region. These firms need significant amounts of food supplies to support their

activities, which could create business opportunities for USADF grantees. However, CEZAM had not yet begun to work with the private sector, in conjunction with the local government, to support the interests of USADF's grantees. Moreover, USADF has not yet helped grantees develop a strategy to capitalize on the opportunities created by the presence of oil companies in the region. Livestock-sector grantees have said that economies of scale for major Kenyan corporations operating around Nairobi enable them to charge lower prices than local producers, making it difficult for Turkana producers to compete.

USADF discussed with grantees the advantages of pooling their goods for sale to create a greater market presence and generate more sales. According to USADF officials, a coordinated marketing effort aimed at the major oil companies would have a realistic chance of success only if the Turkana County Government facilitated this effort or acted as an intermediary. However, the county elected a governor and secretaries in March 2013 in accordance with Kenya's new Constitution. Before then, there was no effective local government for USADF to work with.

A coordinated, targeted marketing effort developed by grantees with the assistance of USADF, CEZAM, and Turkana County that stresses the benefits of purchasing from local producers could help develop significant demand and a lucrative market for local suppliers. Without the engagement of USADF and the county government, however, individual grantees are unlikely to be able to benefit from the opportunities presented by oil exploration. To help spur such collaboration, the audit makes the following recommendation.

Recommendation 14. *We recommend that USADF, in conjunction with CEZAM and Associates Ltd., help grantees implement a coordinated strategy through consultations with the Turkana County Government to help grantees capitalize on opportunities created by the presence of oil companies in the Lake Turkana region.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USADF made a number of general comments before addressing the findings and associated recommendations. Our evaluation of management comments will first consider USADF's observations on the overall report and then its response to specific recommendations.

General Comments

USADF's first general observation was that the draft report did not adequately convey the inherent challenges of providing development assistance in Turkana.

We disagree. The report began by emphasizing the extreme poverty and malnourishment of Turkana's people. Next, in explaining lower-than-expected results, page 6 stated, "Turkana is a historically and culturally isolated area, and most donor support has been relief-driven and not development-oriented. Therefore, many local organizations have limited capacity and require extensive technical assistance." Likewise, the Summary of Results described the harsh context in which all three sectors assisted by USADF are situated. Thus, page 1 referred to "recurrent droughts" and "cattle raids" afflicting the livestock sector, which in turn is hampered by "limited working capital, a dilapidated sales infrastructure, and lack of transportation and marketing systems." Similar references to the lack of infrastructure were made for the irrigated agriculture and fisheries sectors.

USADF stated that the report did not recognize the remedial actions it has already adopted. However, page 11 described the remediation process and then reported, to USADF's credit, that after a 2013 performance review seven grantees were placed under remediation.

USADF also referred to the need for additional training in performance reporting it had identified in 2012. Despite these efforts, page 10 noted that some problems with performance reporting persisted until well into 2013.

Next, USADF criticized the draft report for not reflecting that 99 percent of all funds disbursed "had been appropriately deployed and accounted for." As explained in Appendix I, this audit was not a financial audit and thus was not designed to express an opinion similar to that reflected in the preceding sentence. The audit tested expenditures totaling \$98,958, of which \$16,109 were identified as questioned costs. We clarified in the final report that the expenditures were judgmentally selected for testing.

Finally, USADF stated that the report does not describe the "considerable progress" made by grantees and does not "measure progress that could be reasonably achieved" after 2 years. When appropriate, the report acknowledged grantees' progress. On page 2, we said, "Nearly all grantees demonstrated knowledge and skills acquired through USADF's business and financial management training." On the same page, we observed that, to USADF's credit, grantees "displayed a sense of ownership and responsibility toward their respective projects" that is indicative of the "significant change in mindset" referred to in USADF's comments.

Table 1 on page 5 showed livestock grantees' reported results for the first 2 years and explained why results could not yet be attributed to USADF grants in the irrigated agriculture and fisheries sectors.

Finally, the report cautioned that the program's "intended goals are longer-term outcomes that take more time to achieve than project outputs." The report also acknowledged that some delays occurred in meeting targets "because of USADF's development model, which focuses on building the capacity of grantees to manage their projects before expanding activities."

Recommendations

In its comments on the draft report, USADF concurred with 11 of 14 recommendations and did not concur with 3. We acknowledge management decisions on all 14 recommendations but disagree with USADF's management decisions on Recommendations 7 and 14.

The foundation's audit committee has determined that USADF has taken final action on Recommendations 9 and 13; those recommendations are closed upon report issuance.

Recommendation 1. USADF concurred with the recommendation to review the Turkana portfolio and establish milestones and target dates for remaining activities. USADF said it would undertake this review in accordance with established policies and provide an example of December 2013 work plans containing the milestones and target dates. This action is expected to be completed by March 30, 2014. We acknowledge management's decision.

Recommendation 2. USADF did not concur with the recommendation that it implement a process to confirm that a new country program has a partner organization in place before making awards. In its comments, USADF said the time to identify and train a new partner organization could take up to 1 year, and before making awards, it is not clear what type of organization would best serve grantees' needs. However, USADF also said it would establish a written policy to enhance management oversight when establishing a new country program that would include selection and training of a new partner organization. This new policy is expected to be established by June 30, 2014. We acknowledge management's decision.

Recommendation 3. USADF agreed to implement procedures for the Turkana program to verify that grantees' budgets correspond to planned outputs and deliverables before making awards. Accordingly, USADF planned to provide additional training for Turkana staff on preparing the Appendix A document, which is the major link between planned outputs and budgetary resources. USADF expected to complete this action by March 30, 2014. We acknowledge management's decision.

Recommendation 4. USADF agreed to document lessons learned during start-up and implementation of the Turkana program for dissemination to all staff responsible for reviewing new grants under the program. USADF intended to provide the presentation of the lessons learned and the list of attendees by June 30, 2014. We acknowledge management's decision.

Recommendation 5. USADF agreed to implement a plan to build CEZAM's monitoring and evaluation capacity. To this end, USADF stated that it would provide funds for training CEZAM's staff. USADF expected to provide the training report and list of attendees by June 30, 2014. We acknowledge management's decision.

Recommendation 6. USADF concurred with the recommendation that the foundation, in coordination with CEZAM, help grantees establish monitoring and evaluation systems and internal controls for accurate reporting. To this end, USADF said CEZAM would help grantees establish a monitoring and evaluation committee and written procedures to promote accurate reporting. USADF expected to complete this action by September 30, 2014. We acknowledge management's decision.

Recommendation 7. USADF concurred with the recommendation to determine the allowability of \$6,925 in questioned costs, stating that it had awarded the financial audit of Napucho to Ernst & Young for the period under grant. USADF then said it would follow up on the audit results, including any necessary action to recover questioned costs by June 30, 2014.

We acknowledge management's decision but disagree with it. USADF's comments imply that it will only act on questioned costs identified in the Ernst & Young audit. The questioned costs identified in this audit are distinct from those identified by other auditors and should be subject to a separate determination. Moreover, these questioned costs were identified through testing of a judgmental sample, which is highly unlikely to be replicated by other auditors; in fact, it is an inefficient use of audit resources to do so. Thus, only addressing the costs questioned in the Ernst & Young audit will exclude the questioned costs specified in this recommendation. This office has detailed information that would help the grant officer make a determination on allowability.

Recommendation 8. USADF concurred with the recommendation to determine whether to put the unexpended balance of the Napucho grant to better use based on the results of its upcoming financial audit. The foundation said this determination would be made and documented by the regional program director by June 30, 2014. We acknowledge management's decision.

Recommendation 9. USADF concurred with the recommendation to terminate the portion of the TUPADO award related to the Lopur LMA and put the unexpended funds to better use. In its comments, USADF said it had already moved all remaining funds designated for Lopur to the other LMAs funded under the TUPADO award. We acknowledge management's decision on this recommendation.

Subsequent to management's comments, USADF provided documentation that the foundation's audit committee had determined that final action was taken on this recommendation and that \$42,696 in unexpended funds were put to better use. This recommendation is closed upon report issuance.

Recommendation 10. USADF concurred with the recommendation to determine the allowability of \$4,805 ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to the Eliye Springs BMU and recover the amount determined to be unallowable. USADF said it would document its decision in a memo signed by the USADF president and endorsed by the foundation's audit committee by March 30, 2014. We acknowledge management's decision.

Recommendation 11. USADF concurred with the recommendation to determine the allowability of \$4,379 ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to Longech BMU and recover the amount determined to be unallowable. USADF said that it expects to complete this action by March 30, 2014. We acknowledge management's decision.

Recommendation 12. USADF did not concur with the recommendation to require CEZAM to attend all tender evaluation meetings and provide other assistance in contractor evaluation and selection. The foundation pointed out that attending all such meetings would be burdensome to CEZAM, may not be an efficient use of resources in some instances, and could inhibit development of the grantees' ability to independently oversee the procurement process. USADF said CEZAM would update its training materials to include a review of best practices and procurement requirements, which it expects to complete by July 31, 2014. We acknowledge management's decision.

Recommendation 13. USADF concurred with the recommendation to identify key capacity-building indicators and desired results in its agreement with CEZAM, and verify that these items are included in annual work plans and assessments. Subsequent to management's comments, USADF provided documentation that the foundation's audit committee determined that final action was taken on this recommendation. This recommendation is closed upon report issuance.

Recommendation 14. USADF did not concur with the recommendation to work with CEZAM to help grantees develop a coordinated strategy through consultations with the Turkana County Government to capitalize on opportunities created by recent oil exploration. In its comments, USADF noted that promoting links was not within its statute but then referred to efforts CEZAM has undertaken to "cultivate linkages with other donors and the private sector."

We acknowledge management's decision but disagree with it. Section 504(a)(3) of the African Development Foundation Act (22 U.S.C. 290h) states that one of the purposes of USADF is to "stimulate and assist effective and expanding participation of Africans in their development process," which is consistent with the recommendation's intent. The means and ends of the recommendation—to help move Africans from dependency to self-sufficiency through increased trade—also are consistent with sentiments expressed elsewhere in USADF's management comments. Thus, implementing the recommendation would help foster the attitudinal change "from that of dependency and waiting, to that of proactive decision-making, anticipating one's own needs, and working in the context of business" that USADF stated on page 26.

Our main criticism of USADF's management decision is that it involves only the partner organization working with the grantees to individually approach potential customers rather than using the influence of the county government to represent grantees collectively. USADF's cooperative agreement with CEZAM states that one of the award's purposes is to "establish linkages with national and local governments" in addition to other donors and the private sector. As stated by USADF officials during the audit and referred to on page 18, a coordinated marketing effort aimed at the major oil companies would have a realistic chance of success only if the Turkana County Government facilitated this effort or acted as an intermediary. USADF does not have to approach local government directly to be responsive to the intent of the recommendation; instead, it can work with CEZAM, as stated in the recommendation, to accomplish this goal.

SCOPE AND METHODOLOGY

Scope

RIG/Pretoria 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 the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether USADF projects in Turkana were achieving intended longer-term goals of increasing food security and promoting income generation. As of June 30, 2013, 29 grants and cooperative agreements worth \$5.2 million had been obligated; this includes both active and expired awards. Given the varying stages of project implementation and time allotted for the audit, the audit team focused on the following recipients:

Table 2. Recipients (Unaudited)

Recipient	Sector	Status	Start	End	Total Estimated Cost (\$)
APAD, Napakier	Irrigated Agriculture	Expired	4/4/2011	3/31/2012	39,348
Agency for Pastoralists Development (APAD), Napak	Irrigated Agriculture	Expired	4/6/2011	3/31/2012	64,772
TUPADO I	Livestock	Active	7/6/2011	9/30/2014	206,030
TUPADO II	Livestock	Active	7/6/2011	9/30/2014	237,333
DLMC	Livestock	Active	7/6/2011	9/30/2014	235,904
Napucho	Livestock	Active	9/1/2011	9/30/2014	110,820
Impressa BMU	Fisheries	Active	9/19/2011	9/30/2014	227,749
Eliye Spring BMU	Fisheries	Active	9/20/2011	9/30/2014	222,042
Longech BMU	Fisheries	Active	9/22/2011	9/30/2014	228,351
CEZAM	--	Expired	9/22/2011	9/30/2012	347,262
APAD, Napak	Irrigated Agriculture	Active	6/15/2012	6/30/2015	245,737
APAD, Napeikar	Irrigated Agriculture	Active	6/15/2012	6/30/2015	245,646
CEZAM	--	Active	9/30/2012	9/29/2013	343,070

These recipients were selected based on their sector, performance, and budget. Selected recipients represented a mix of the three program sectors of livestock, irrigated agriculture, and fisheries. The audit scope also included recipients with performance remediation plans, relatively low reported results, or those with anomalies in expenditures, as well as a relatively strong performing recipient. The total estimated cost for selected recipients was almost \$2.8 million, representing about 53 percent of the \$5.2 million portfolio as of June 30, 2013. The audit team tested judgmentally selected expenditures totaling \$98,958; thus, results from testing those expenditures cannot be projected to the population from which they were drawn. We also physically verified 74 percent of recipients' purchases for equipment and infrastructure.

In planning and performing the audit, we assessed the following significant internal controls: monitoring of program activities by USADF and CEZAM, as evidenced by site visit reports; financial audits of USADF grantees; and CEZAM's assistance to grantees in preparing quarterly progress reports and disbursement reports. We also reviewed previous audit reports to identify internal controls and other issues that could be relevant to the current audit.

We performed the audit in Turkana County from August 12 to 30, 2013. We conducted fieldwork at USADF's and CEZAM's office in Lodwar, and recipients' offices and sites in Eliye Springs, Kakuma, Kalobeye, Kalokol, Lodwar, Lokichoggio, Longech, Lopur, Napak, and Napeiker.

Methodology

To answer the audit objective, we gained an understanding of USADF's organizational structure, operational model, and governing policies. We reviewed the screening and due diligence processes for USADF's partners and grantees to determine whether awards were made through a sound decision-making process. We also reviewed cooperative and grant agreements, site visit reports, applicable financial reports, performance scorecards, remediation plans, and quarterly reports, and corroborated information with interviews and site visits. We interviewed USADF officials based in Washington, D.C., and Lodwar, and CEZAM staff, selected recipients, and program beneficiaries in Turkana County. At the site visits, we interviewed grantees about the program's progress and USADF's and CEZAM's support, assessed the condition of USADF-funded capital expenditures such as buildings, latrines, and office equipment, reviewed performance results and supporting documentation, and spoke to beneficiaries about program results.

To validate performance data, we selected performance indicators that represented grantees' sales revenue and production results. For selected indicators, we examined the grantees' data collection methods and assessed the reasonableness of baselines and targets established in grantees' agreements. We also compared a judgmental sample of source documentation to the quarterly reports reported to USADF. The sample was selected to include at least one recent quarter of reported results and one older quarter. This methodology was chosen because it was the most efficient use of audit resources and not all grantees started reporting results in the same quarter. Since these samples were selected judgmentally, the results cannot be projected to the population from which they were drawn. For tested performance data, an error rate of less than 5 percent was considered acceptable.

MANAGEMENT COMMENTS



January 31, 2014

Mr. Robert W. Mason
 Regional Inspector General
 U.S. Agency for International Development
 100 Totius Street
 Groenkloof X5, 0181
 Pretoria, South Africa

Dear Mr. Mason:

Thank you for your transmission note of December 31, 2013 and the copy of the Draft Report of Office of Inspector General's Audit of U.S. African Development Foundation Activities in Turkana dated December 31, 2013. We appreciate the opportunity to comment on the report (Audit Report No. 4-ADF-13-00X-P), its findings and recommendations.

The U.S. African Development Foundation (USADF) has found value in the findings and recommendation of prior OIG/USAID audit reports. However, the present Audit of the Foundation's Turkana activities falls short as it does not:

- (a) Consider the challenge associated with delivering development assistance to the target population and region,
- (b) Recognize remedial actions already introduced by USADF prior to the Audit,
- (c) Reflect that 99% of all funds disbursed had been appropriately deployed and fully accounted for,
- (d) Document the considerable progress achieved by the majority of the grantees, and,
- (e) Measure progress that could be reasonably achieved within the first two-years of a five-year program.

The OIG audit report accurately recognized that USADF's grant population in Turkana is located in the "poorest and most remote county in Kenya" where "more than 70 percent of the people in this traditionally pastoralist society rely on food aid and 20 percent are malnourished." A major focus of USADF's first two years of activity and its longer term commitment in Turkana has been to help the population reduce its reliance on outside humanitarian relief and to reduce its vulnerability to external environmental shocks, such as reoccurring drought and famine.

The audit, performed just over two years after USADF launched the program in 2011, was conducted to determine whether selected USADF projects in Turkana are achieving intended goals of increasing

food security and promoting income generation. Assessing these longer term objectives of the program and measuring the short term results in the early stages of the program one needs to take into account the starting points of the region, the learning curve of the Turkana people who lacked business knowledge and experience and have the lowest levels of education with 92% illiteracy according to the Kenya National Bureau of Statistics, in order to fully appreciate the progress made in achieving these overall goals.

Unlike previous donors who planned and implemented the assistance they provided, USADF's model recognizes the starting points of the projects and empowers Africans in the decision-making and implementation process to provide for their sustainability. This requires a significant change in mindset—from that of dependency and waiting, to that of proactive decision-making, anticipating one's own needs, and working in the context of a business.

Recognizing the grantee's lacked prior knowledge and experience with commercial enterprises activities, USADF grants include substantial capacity building assistance which empowers the grantee to put in place the required building blocks of basic business management skills. These skills facilitate the organizations management decision making and income generation and increase their potential for food security. The report noted that USADF provides for sustainability by "working with grantees to build their capacity ... develop project proposals, business plans, and accounting systems that they can use after the end of the USADF grant." USADF appreciates the report acknowledging the effectiveness and full intent of the capacity building performed. However, the report does not speak to the necessity of these activities as prerequisites to achieving the overall program goals, or the timeframe required for their implementation. At the time of audit the majority of the Enterprise Development Investments (EDI) grants, which had successfully introduced improved capacity building, had been awarded a follow-on Enterprise Expansion Investments (EEI) grant to provide for their expansion of production activities.

Due to audit being performed just after 2 years, the EEIs which focus on expanding production and income which lasts, at a minimum, three years were yet to be completed. However, below is reflective of some of the documented quantitative positive impacts that should be noted in the final report to give the reader a clearer understanding of the impact being obtained.

RESULTS:

- As of the September, 2013 Quarterly Reports, the grantees have earned in total \$9.1 million in revenues, against \$2.3 million disbursed in grants. These numbers are expected to increase significantly as 5 fishing groups come into full expanded production and 9 irrigation schemes are completed and begin full production in 2014.
- As of September, 2013, DLMC, a livestock grantee, showed an increase in revenue of \$1.1 million above baselines. This result is against total disbursements of \$227,000.
- Of the 22 organizations that USADF had funded at the time of the audit, 2 had baseline data in place prior to the USADF program. USADF worked with the other 20 groups to develop data collection systems that allow them to better track and record production, sales, and profits.

AUDIT FINDINGS:

The audit identified 7 findings which resulted in 14 audit recommendations. USADF provides the following additional comments and the attached table reflecting USADF's response to the findings and final implementation dates.

In Summary, USADF:

- Concurred on 10 audit recommendations (Rec.'s 1,3,4,5,7,8,9, 10, 11,13)
- Concurred with clarification on 1 recommendation (Rec. 6)
- Do Not Concur with 3 recommendations (Rec.'s 2, 12 and 14)

In response to Finding 1: "USADF Projects Made Limited Progress Toward Targets," which resulted in 1 recommendation: USADF concurs with the recommendation.

It should be noted that USADF had originally identified and presented to the OIG as part of their initial request, USADF's April, 2013 Bi-Annual Program Management Review. This review identified that 6 of the projects were underperforming. At that time, a total of 27 grants had been awarded. Documentation provided also included our formal remediation plans to address these deficiencies in accordance with policy MS-243. The above finding could be misinterpreted to incorrectly conclude that a majority of the 27 projects that had been funded in Kenya were making limited progress and it fails to consider the remedial measures that had been put in place for the 6 referenced grantees.

In response to Finding 2: "USADF Did Not Follow Project Development Policies" which resulted in 3 recommendations: USADF Concurs with Recommendations 3 and 4 and does not concur with Recommendation 2.

We note that all grants were vetted within USADF's senior management, in accordance with USADF policies MS-211 - Project Development and MS-212 - Grant Compliance Review and Grant Authorization. Where it was clear a grantee fell in between the two types of typical USADF grants (capacity-building EDIs and production-expansion EEs) program staff took this into account by requiring the necessary capacity-building activities as conditions precedent to implementation of production-related activities, thereby safeguarding USADF funds until appropriate financial management and operational procedures were in place. The decision to use a phased approach to grant implementation, as in the grants to the Beach Management Units, was consciously made and approved by USADF program staff and senior management.

USADF does not concur with Recommendation 2, "USADF implement a process to ensure that a new country program has a partner organization in place prior to making awards." USADF does not concur with this recommendation because USADF policies do not require a Partner to be in place prior to making awards since finding and training a partner organization is a process that can take up to a year, further delaying USADF's impact. Further, in the early stages of entering a new country, before any grantees are selected, it is not clear what type of partner would best serve grantees' needs for the longer term. During start-up of a new country program, USADF has and will continue to engage experienced staff to ensure that management oversight and controls are in place until a permanent partner is selected.

In response to Finding 3: "Grantees Reported Inaccurate, Unreliable Performance Results," which resulted in 2 recommendations: USADF concurs with Recommendations 5 and 6.

It should be noted that USADF had likewise noted in 2012 the need for additional training to both CEZAM and grantees on putting in place data collection systems to relay information. To that effect, USADF sent the CEZAM Program Coordinator on an exchange trip to Rwanda to deepen his skills in this area, sent the USADF Program Analyst to Uganda and then Kenya to additionally transfer best practices, and further provided funding to CEZAM to engage an expert consultant for further training, all of which took place prior to the audit period. The finding fails to acknowledge remedial actions taken by USADF

to address these concerns.

In response to Finding 4: “Two Livestock Grantees Were Underperforming,” which resulted in 3 recommendations: USADF concurs with Recommendations 7, 8, and 9.

Turkana pastoralists live in poverty largely because of their dependence on their animals for their livelihood, in a harsh and unpredictable environment. Pastoralists specifically noted to USADF a major constraint on their livelihoods—lack of capital and infrastructure to facilitate their livestock trade. Given that pastoralism is the main economic activity for a majority of the Turkana population, USADF considers it essential to engage in the livestock sector and address these needs. USADF has had a significant impact in the livestock sector, with results of \$8.5 million in cumulative revenues as of September, 2013.

Under this finding, the OIG makes Recommendation 9, “that USADF terminate a portion of its award with the Turkana Pastoralist Development Organization for its work with Lopur Livestock Marketing Association and put the unexpended funds (currently \$42,696) to better use.” Page 16 of the OIG report noted that “Lopur lacked operational and managerial ability.” USADF concurs with the recommendation and this statement from the OIG’s report. USADF notes that the Lopur is 1 of 6 Livestock Marketing Associations (LMAs) to benefit from USADF’s funding. We have completed the recommendation and transferred funds intended for Lopur to other, more viable LMAs. USADF would like to bring to the OIG’s attention the 5 Livestock Management Associations which are performing successfully.

In response to Finding 5, “Grantees Were Not Vetting and Managing Contractors Adequately,” which resulted in 3 recommendations: USADF concurs with two Recommendations 10, 11 and does not concur with Recommendation 12.

The OIG also makes recommendation 12, “that USADF implement a policy that requires CEZAM and Associates Ltd. to attend all tender evaluation meetings to monitor and assist grantees in the contractor evaluation and selection process, and require its partner organization to help grantees reviewing all draft service agreements and contracts prepared by grantees to confirm inclusion of all required provisions.” USADF does not concur with requiring partner organizations to attend all procurement processes. This would place a considerable burden and cost in both time and money to the partner. For the partners to attend some procurement committee meetings, for example, the procurement of office supplies or fixtures, might cost more than the value of the goods being procured. Further, the partner’s presence at all procurements would undermine the objective of teaching the grantee to manage major purchases, which is an essential skill for the long-term viability of any business. USADF and CEZAM will continue to provide guidance and actively review grantees’ procurement processes and documentation. In country programs with exceptionally low-capacity grantees such as Kenya, USADF and its partner will continue to surpass the standard of care required in USADF’s policy MS-326 Grant and Cooperative Agreement Disbursement Procedures, which outlines documentation and support required of USADF and partners on behalf of grantees.

In response to Finding 6, “USADF Did Not Track Progress in Building Its Partner Organization’s Capacity,” which resulted in 1 recommendation: USADF concurs with and has already implemented Recommendation 13.

However, we note that although USADF did not quote the performance indicators from section 6.1 of CEZAM’s Cooperative Agreement as the OIG audit of Cape Verde recommended, USADF did measure CEZAM’s performance on specific benchmarks. These include CEZAM’s ability to assist grantees in project development, based on the quality of project development documents that CEZAM submitted, CEZAM’s ability to assist grantees in grant start up, based on the number of days until the first

disbursement, CEZAM's ability to support grantees in grant implementations, based on grantees achievement of grantees' Appendix A indicators and CEZAM's number of site visits, to name a few. All of these capacities are specifically rated in CEZAM's annual performance review. Finding 6 fails to consider the performance measures that USADF already includes within CEZAM's annual performance review.

Under Finding 7, "USADF Has Not Capitalized on Opportunities Arising From Oil Exploration," which resulted is 1 recommendation: USADF does not concur with Recommendation 14.

The OIG makes Recommendation 14, "that USADF in conjunction with CEZAM and Associates Ltd., help grantees develop and implement a coordinated strategy through consultations with the Turkana County Government to help grantees capitalize on opportunities created by the presence of oil companies in the Lake Turkana region." USADF does not concur because it is not within USADF's statute to promote linkages. However, Section 6.2 of CEZAM's Cooperative Agreement calls for "Building Linkages," which CEZAM has done both before the audit and through the present. Lastly, the finding is misleading as it does not acknowledge that both grantees with ongoing production that were in a position to sell to companies affiliated with oil production have approached these companies, informed themselves of the oil companies procurement and tendering procedures, and made sales where possible.

The Foundation's management and Board of Directors remain committed to improving program effectiveness and operational efficiencies to advance USADF's unique approach to achieving sustainable development results for marginalized communities in Africa.

Sincerely,

Shari Berenbach /s/
President and Chief Executive Officer

attachment

No	OIG Recommendation	ADF's Response	Corrective Action(s)	Corrective Action Completion Date
1: USADF PROJECTS MADE LIMITED PROGRESS TOWARD TARGETS				
1	We recommend that USADF review the Turkana portfolio of projects and establish milestones and target dates for completing the remaining activities under each project.	Concur.	USADF will review the Turkana program in accordance with MS 232 Project Quality Assurance, MS-243 Grant Remediation, and MS-241 Grant Amendments all of which require established milestones and target dates. USADF will provide an example of the workplans submitted in the December 2013 Quarterly Reports identifying established milestones and target dates for the current Turkana portfolio.	March 30, 2014
2: USADF DID NOT FOLLOW PROJECT DEVELOPMENT POLICIES				
2	We recommend that USADF implement a process to ensure that a new country program has a partner organization in place prior to making awards.	Do Not Concur.	USADF will establish a written policy that will include a process for management oversight when a new country program is established. This policy will include the selection and training of a new partner organization as one option but will also consider alternatives to support timely start-up.	June 30, 2014
3	We recommend that USADF implement procedures for its Turkana program to verify that grantees' budgets correspond to planned outputs and deliverables prior to making awards.	Concur.	USADF Program staff will provide further in-house training for the Turkana Program on the preparation of the Appendix A document, which is the major link between planned outputs and budgets. USADF will provide the IG documentation describing the training performed and attendees.	March 30, 2014
4	We recommend that USADF document lessons learned during the start-up of the Turkana program, including the appropriate selection of types of grants, and communicate those lessons to USADF and CEZAM and Associates Ltd. staff who are responsible for reviewing new grants under the program.	Concur.	ADF will review and document its lessons learned during the start-up and implementation of the Turkana program and present the lessons learned to all USADF staff responsible for reviewing new grants under the program. USADF will provide the presentation and list of the attendees.	June 30, 2014

No	OIG Recommendation	ADF's Response	Corrective Action(s)	Corrective Action Completion Date
3: GRANTEES REPORTED INACCURATE, UNRELIABLE PERFORMANCE RESULTS				
5	We recommend that USADF implement a plan to build CEZAM and Associates Ltd.'s monitoring and evaluation capacity.	Concur.	USADF will include funds in CEZAM's Cooperative Agreement for training their staff on monitoring and evaluation. USADF will provide the training report and list of CEZAM's attendees.	June 30, 2014
6	We recommend that USADF, in coordination with CEZAM and Associates Ltd., help all grantees establish monitoring and evaluation systems and internal controls for accurate reporting.	Concur.	Please note that USADF does not provide direct technical assistance to the grantees. CEZAM will assist each grantee to have a functional and active Monitoring and Evaluation (M&E) committee with written procedures in place for collecting data to report on ADF's Appendix A indicators and to review the accuracy of the data reported. USADF will provide the IG an example of a Turkana grantee's M&E committee operating procedures with established M&E systems and internal controls for accurate reporting.	September 30, 2014
4: TWO LIVESTOCK GRANTEES WERE UNDERPERFORMING				
7	We recommend that USADF determine the allowability of \$6,925 in questioned costs (\$6,427 unsupported and \$498 ineligible arising from Napucho's ineligible salary payments and unsupported cash withdrawals, and recover any amounts determined to be unallowable.	Concur.	The USADF has awarded the financial audit of Napucho to Ernst and Young for the period under the grant; the Entrance Conference is scheduled for January 23, 2014. USADF will perform the audit follow-up required to address the audit recommendations and facilitate the recovery of any questioned costs. USADF will submit a summary of the audit results and documentation reflecting action take to recover questioned costs as needed.	June 30, 2014
8	We recommend that USADF determine whether to put the unexpended balance of the Napucho grant to better use based on the results of its upcoming financial audit, and document its decision.	Concur.	Based on the results of the financial audit, USADF will determine the best usage of the unexpended balance of the Napucho grant. This will be documented in a memo signed by Regional Program Director.	June 30, 2014

No	OIG Recommendation	ADF's Response	Corrective Action(s)	Corrective Action Completion Date
9	We recommend that USADF terminate a portion of its award with the Turkana Pastoralist Development Organization for its work with Lopur livestock marketing association and put the unexpended funds (currently \$42,696) to better use.	Concur.	Corrective Action has been taken. An approved Budget Shift dated December 11, 2013 moved all remaining funds from the Lopur line item of grant 2389 to TUPADO for the three livestock marketing associations funded under this grant.	January 31, 2014
5: GRANTEES WERE NOT VETTING AND MANAGING CONTRACTORS ADEQUATELY				
10	We recommend that USADF determine the allowability of \$4,805 in ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to Eliye Springs beach management unit that were not in accordance with the agreement terms, and recover from Eliye Springs beach management unit the amount determined to be unallowable.	Concur.	<p>ADF will determine the allowability of the costs as outlined in the grantee's contract with Excellent Operations Consultants. USADF will document this decision in a memo signed by the USADF President and concurred upon by USADF Board Audit Committee. Based on a determination to recover, USADF will take the necessary steps to recover.</p> <p>ADF will notify the U.S. Embassy (through the Economic Officer) to alert them of Excellent's non-compliance with the contracts it signed with USADF grantees. USADF will ask the Embassy to add Excellent Operations to a list of non-recommended contractors.</p>	March 30, 2014
11	We recommend that USADF determine the allowability of \$4,379 in ineligible questioned costs arising from payments made to Excellent Operations Consultants for services provided to Longech beach management unit that were not in accordance with the agreement terms, and recover from Longech beach management unit the amount determined to be unallowable.	Concur.	<p>ADF will determine the allowability of the costs as outlined in the grantee's contract with Excellent Operations Consultants. Based on a determination to recover, USADF will take the necessary steps to recover.</p> <p>ADF will notify the U.S. Embassy (through the Economic Officer) to alert them of Excellent's non-compliance with the contracts it signed with USADF grantees. USADF will ask the Embassy to add Excellent Operations to a list of non-</p>	March 30, 2014

No	OIG Recommendation	ADF's Response	Corrective Action(s)	Corrective Action Completion Date
			recommended contractors.	
12	We recommend that USADF implement a policy that requires CEZAM and Associates Ltd. to attend all tender evaluation meetings to monitor and assist grantees in the contractor evaluation and selection process, and require its partner organization to help grantees reviewing all draft service agreements and contracts prepared by grantees to confirm inclusion of all required provisions.	Do Not Concur.	Note: ADF and CEZAM will continue to follow MS-326 Grant and Cooperative Agreement Disbursement Procedures. CEZAM will update its training materials for the ADF required training provided to all grantees, to include a review of best practices and requirements for procurements.	July 31, 2014
6: USADF DID NOT TRACK PROGRESS IN BUILDING ITS PARTNER ORGANIZATION'S CAPACITY				
13	We recommend that USADF identify key capacity-building indicators and the results to be achieved in its annual cooperative agreement with CEZAM and Associates Ltd., and implement procedures to verify that they are included in the annual work plan and assessed during CEZAM and Associates Ltd.'s annual performance evaluation.	Concur.	USADF will submit to the OIG CEZAM's most recent work plan and the template for its next performance evaluation, which identifies the indicators specifically developed by CEZAM, based on section 6.1 of its Cooperative Agreement.	January 31, 2014
7: USADF HAS NOT CAPITALIZED ON OPPORTUNITIES ARISING FROM OIL EXPLORATION				
14	We recommend that USADF in conjunction with CEZAM and Associates Ltd., help grantees develop and implement a coordinated strategy through consultations with the Turkana County Government to help grantees capitalize on opportunities created by the presence of oil companies in the Lake Turkana region.	Do Not Concur.	Note: Not within our statute to promote linkages. In compliance with Section 6.2, Building Linkages, of CEZAM's Cooperative Agreement, CEZAM is already assisting the grantees to cultivate linkages with other donors and the private sector, such as the oil industry, to broaden the grantees' marketing and facilitate the sustainability of the grantees' business activities. Examples include CEZAM's assistance to grantees Neema and Napucho, who have approached the procurement agent of Tullow oil, and CEZAM's assistance to	June 30, 2014

No	OIG Recommendation	ADF's Response	Corrective Action(s)	Corrective Action Completion Date
			Lokwaliwa, which has allowed Lokwaliwa to receive additional funding from another donor, the KCB-Foundation. Further talks with additional donors are underway. USADF will provide a sample of the documentation demonstrating CEZAM's activities in building linkages.	

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