



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/NEPAL'S EDUCATION FOR INCOME GENERATION PROGRAM

AUDIT REPORT NO. 5-367-11-003-P
DECEMBER 14, 2010

MANILA, PHILIPPINES



Office of Inspector General

December 14, 2010

MEMORANDUM

TO: USAID/Nepal Director, Kevin A. Rushing, D.V.M.

FROM: Acting Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Nepal's Education for Income Generation Program
(Audit Report No. 5-367-11-003-P)

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

This report contains seven recommendations to assist the mission in improving the efficiency and effectiveness of its program. On the basis of information provided by the mission in its response to the draft report, we determined that management decisions have been reached on all seven recommendations. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close these recommendations.

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

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SUMMARY OF RESULTS

The Education for Income Generation Program aims to increase income and employment for disadvantaged youth. Specifically, the program was designed to mitigate conflict by training disadvantaged youth between the ages of 16 and 30 in the Mid-Western Region of Nepal. The program has four components: (1) literacy, life skills, and entrepreneurship training, (2) vocational education, (3) agricultural productivity and microenterprise, and (4) scholarships.

To implement the program, USAID awarded a \$14.7 million contract to Winrock International, covering a 5-year period from January 3, 2008, through January 2, 2013. The program's activities are expected to directly benefit 70,220 individual participants throughout the 15 districts of the Mid-Western region of Nepal (shown in map below). In addition, each component of the program is expected to give particular consideration to beneficiaries in the five districts of the Karnali Zone¹ in the northern half of the Mid-Western region. The Karnali Zone is the most impoverished and underdeveloped region in Nepal. As of June 30, 2010, obligations and disbursements under the program totaled \$8.5 million and \$6.2 million, respectively.



The five districts of the Karnali Zone make up roughly the northern half of the Mid-Western Region of Nepal. (Map obtained from www.geographyiq.com)

The objective of the audit was to determine whether the program was achieving its main goal of increasing income and employment for disadvantaged youth.

The audit determined that the program was achieving this goal. As of June 30, 2010, halfway through the contract, the program had trained 7,172 youth in a vocational field, achieving over 65 percent of the end-of-program target of 11,000 for the vocational education component. In addition, approximately 81 percent of assessed vocational course graduates had obtained employment because of the training provided by the program. Thus, the program was on track

¹ The Karnali Zone comprises five districts: Jumla, Humla, Mugu, Kalikot, and Dolpa.

to achieve its 80 percent life-of-program target. Furthermore, beneficiaries of the agricultural productivity component had experienced a 222 percent increase in income on average, based on a statistical sample of the program's Year 1 graduates; the target for these beneficiaries was an average increase in income of 100 percent. (The photo below shows a technique that boosts income.) In all, 53,273 individuals had benefited from the program, 78 percent of them women.



Tomatoes grow during the off-season in Rolpa District. Farmers growing produce during the off-season through use of a plastic tunnel and drip irrigation boost their incomes as a result of elevated prices. (Photo by OIG, August 2010)

Other notable achievements under the program include the following:

- Beneficiaries were learning the value of earning money. Those interviewed during the audit said they used this newfound income for continuing their children's education, obtaining better health services, maintaining their household more effectively, and saving for future opportunities. In addition, beneficiaries have indicated that they were very happy with the program.
- The 9-month literacy, life skills, and entrepreneurship training course had higher-than-expected course completion rates, indicating that beneficiaries viewed the course as useful in their daily lives and in generating income opportunities. Many participants attended this course in conjunction with the agricultural productivity component of the program to enhance their success in marketing their produce. As of June 30, 2010, 11,211 individuals had completed the course, with another 11,241 on track to finish in September 2010. Altogether, beneficiaries totaled 22,452 compared with a life-of-program target of 30,000 youth.
- A total of 32,806 youth had completed training courses aimed at improving their agricultural productivity compared with a life-of-program target of 40,000.

- On average, graduates of agricultural microenterprise training increased their average annual income by \$373,² a 145 percent increase. The target was a \$250 average increase in annual income.

Notwithstanding program successes, the audit identified some areas where improvements could be made—whether by adjusting the methodology of providing program services or by more accurately reporting on the performance of the program. Specifically, the audit found that:

- Youth in remote, sparsely populated communities were not as likely to receive program benefits (page 4).
- Literacy, life skills, and entrepreneurship training interventions needed to be tailored to better address beneficiary needs (page 5).
- The reporting on key indicators needed to be improved (page 7).

The report recommends that USAID/Nepal:

1. Adjust, if cost-effective, the eligibility requirements for targeted beneficiaries of the program to include a limited number of disadvantaged residents older than 30 who could benefit from program interventions so as to allow youth in more remote, sparsely populated communities to participate in the program (page 5).
2. Direct its contractor to modify the program database to include actual final test scores, instead of recording only pass-fail information, to enable the contractor to tailor its interventions to address the educational needs of beneficiaries (page 7).
3. Direct its contractor to include final test scores in its formal reporting rather than just pass-fail data (page 7).
4. Determine the reason for the lower test scores in the Karnali Zone and make adjustments, as necessary, to tailor the literacy component of the program to better assist the beneficiaries there (page 7).
5. Work with its contractor to include more math in its literacy, life skills, and entrepreneurship training curriculum—content that beneficiaries indicated would assist them in conducting business (page 7).
6. Clarify the indicator being used for measuring the impact of the program's vocational education component (page 8).
7. Verify that assessment results are accurately attributed from statistical samples to the rest of the population and that accurate projections are reflected in upcoming progress reports (page 10).

Our evaluation of management comments is on page 11. The scope and methodology are described in Appendix I, and USAID/Nepal's comments are in Appendix II.

² An exchange rate of 70 Nepali rupees to US\$1 was used for this calculation.

AUDIT FINDINGS

Youth in Remote, Sparsely Populated Communities Are Not as Likely to Receive Program Benefits

The Education for Income Generation contract stipulates that program beneficiaries will be those who historically have had limited access to educational training—specifically disadvantaged groups and residents of remote areas—and that beneficiaries are to be between the ages of 16 and 30. In addition, the contract requires that particular attention be paid to beneficiaries in the five districts of the Karnali Zone, the most impoverished and underdeveloped region in the country. The program’s monitoring and evaluation plan also defines target beneficiaries as disadvantaged, conflict-affected youth between the ages of 16 and 30 residing in extremely remote geographic areas.



Remote communities dot these mountains in Dailekh District. (Photo by OIG, August 2010)

However, the audit found that disadvantaged youth in remote communities like those shown above were not as likely to receive program benefits. This is because, in a number of these communities, the population is sparse, with insufficient numbers of youth aged 16–30 to justify fielding the 9-month literacy and life skills course or the agricultural productivity training. To justify the costs of setting up such courses in a community, contractor officials indicated they require a minimum of 20 eligible participants. Contractor staff were unable to attract enough participants without breaking the contractual stipulation that beneficiaries be no older than 30, much to the detriment of the communities where such interventions were greatly needed.

As a result, disadvantaged youth in some of the sparsely populated communities could not be trained. According to contractor estimates, 20 to 28 percent of such communities were excluded from the program. In one district in the Karnali Zone, as many as 50 percent of such communities were excluded from the program because of the lack of sufficient numbers of 16- to 30-year-old residents.

The inability to include older disadvantaged residents on a selective basis has made it difficult for the program to reach some disadvantaged youth in more remote, sparsely populated areas. A potential solution for this adverse effect would be to provide an exception to the current age limit on a case-by-case basis in communities with an insufficient number of eligible youth aged 30 or under. By opening eligibility to persons 35 years of age or older, some of the communities that are completely excluded from all assistance under the program may be able to benefit, including the originally targeted youth who were insufficient in number to justify a program in a given community.

Expanding eligibility might confer additional benefits. Older individuals are more likely to remain in the community, whereas younger individuals are more likely to leave the area in search of opportunities elsewhere after being trained. Moreover, a government district agricultural development officer interviewed for the audit suggested that older residents are the ones who have decision-making authority in a household to make optimum use of the agricultural lands owned, and hence might make even better use of the skills being taught in the agricultural productivity component.

To help ensure that program activities benefit more of the targeted disadvantaged residents of sparsely populated areas, and to allow flexibility in the selection of program beneficiaries, we make the following recommendation:

***Recommendation 1.** We recommend that USAID/Nepal adjust, if cost-effective, the eligibility requirements for targeted beneficiaries of the Education for Income Generation Program to include a limited number of disadvantaged residents older than 30 who could benefit from program interventions so as to allow youth in more remote, sparsely populated communities to participate in the program.*

Literacy Training Needs to Be Tailored to Beneficiary Needs

The literacy, life skills, and entrepreneurship training component of the program—also known as the literacy component—is a 9-month course designed to help youth attain literacy and numeracy skills to prepare them for future employment. The course consists of three modules. Module 1, a 3-month course, addresses basic reading, writing, and mathematical skills to help the participant enter the working environment. Module 2 is a 2-month curriculum that provides general health-related lessons in HIV/AIDS awareness and nutrition; multiple life skills; and exposure to peace building, which includes the responsibilities of citizens, social inclusion, and conflict mediation. The remaining 4 months are spent in Module 3, which addresses entrepreneurial topics such as subsistence versus commercial agricultural production, entrepreneurial approaches, business planning, and calculations of profit and loss in a business.

The program evaluates the success of its literacy component by measuring the number of youth maintaining at least a 60 percent attendance rate during the 9-month course and achieving at least a 40 percent score on a final test containing 10 questions covering the main themes of the

course. The results of the test are recorded in the program's database as a pass-fail score with no acknowledgment of the numerical score obtained; similarly, no final test scores are provided in the program's formal progress reporting.

The current methodology of reporting beneficiary success through a pass-fail score on the official final test (with a 40 percent pass rate) masks any specific deficiencies that beneficiaries may be experiencing. For example, one cannot tell from the current manner of reporting whether beneficiaries are failing in literacy, numeracy, or any of the specific life skill areas. Nor can one tell overall how well—or how badly—beneficiaries are doing.

Notably, our sample of beneficiary final tests revealed that the average score for Karnali Zone beneficiaries was just 49 percent (only 9 percent over the already low passing score) whereas in the other districts the average score was 76 percent (a full 36 percent over the minimum passing score).

In addition, average scores on informal pre- and postmodule tests administered by the teacher at the beginning and end of each of the three modules measure the change in understanding of concepts just after the modules are completed. According to these informal posttest scores, participants in the Karnali Zone demonstrated a much lower understanding of component concepts compared with participants in the other districts in the Mid-Western Region, raising the question as to whether the beneficiaries in this area are being prepared for future employment as well as they should be.

Qualitative information can also be beneficial in measuring program effectiveness. However, the program does not ask beneficiaries for formal feedback on their experiences or solicit their ideas about adjustments that could be made to the curriculum to better accomplish the program's objective. Of 138 literacy component beneficiaries interviewed by auditors, 83 indicated a desire to spend more time on arithmetic to assist them in conducting business. Several beneficiaries specifically mentioned the desire to learn multiplication and division, topics that are not included in the current course.

According to the contract, the contractor was to tailor program interventions to address the needs of beneficiaries. In addition, the contract requires that particular attention be paid to beneficiaries in the five districts of the Karnali Zone, the most impoverished and underdeveloped region in the country. However, halfway through the program, auditors found no evidence that program interventions have been tailored in the manner described by the contract, nor have program interventions been tailored in any way to address the markedly lower achievement levels for program beneficiaries in the Karnali Zone.

One of the main causes of the program's not tailoring its interventions is that the program's database does not report on final test scores or identify what topics beneficiaries have not mastered. The database indicates only whether beneficiaries passed or failed the final examination. Further, the program does not formally solicit feedback from program participants to identify areas for improvement and to provide data to adjust program interventions. Auditors were unable to determine the reason for the lower test scores in the Karnali Zone compared with the other districts in the Mid-Western Region of Nepal.

As a result, participants in the Karnali Zone have demonstrated limited understanding of component concepts. While certain adjustments have been made to the program,³ we do not find these actions sufficient to meet the contractual requirement to pay particular attention to Karnali Zone beneficiaries. In addition, beneficiaries' desires to strengthen certain parts of the program have not been considered or acted on. Therefore, we make the following recommendations:

Recommendation 2. *We recommend that USAID/Nepal direct its contractor to modify the program's database to include actual final test scores, instead of recording only pass-fail information, to enable the contractor to identify weaknesses and tailor its interventions to address the educational needs of beneficiaries.*

Recommendation 3. *We recommend that USAID/Nepal direct its contractor to include final test scores in its formal reporting procedures.*

Recommendation 4. *We recommend that USAID/Nepal determine the cause of the lower tests score in the Karnali Zone and make adjustments, as necessary, to tailor the literacy, life skills, and entrepreneurship training component of the Education for Income Generation Program to better assist beneficiaries there.*

Recommendation 5. *We recommend that USAID/Nepal work with its contractor to include more math content in its literacy, life skills, and entrepreneurship training curriculum.*

Reporting on Key Indicators Needs to Be Improved

To be useful in managing for results and credible for reporting, indicators should be measured consistently and accurately. Specifically, USAID's Automated Directives System 203.3.5.1, "Data Quality Standards," sets forth five data quality standards, including "validity" and "reliability." To meet the "validity" standard, data should clearly and adequately represent the intended result, with consideration given to how well the data measure the intended result. To meet the "reliability" standard, data should reflect stable and consistent data collection processes and analysis methods over time.

One of the vocational component's indicators, *percent of training course graduates retaining quality employment 3 months after graduation*, was measured inconsistently, while data on an indicator for the agricultural productivity and microenterprise component were inaccurate. Shortcomings in reporting on these two impact indicators are discussed below.

Job Retention Measured Inconsistently. The program uses two indicators to measure graduates' employment success (Table 1).

³ For example, ensuring that students set class times, seasonal days off, and make-up periods; adding a 1-month credit and savings module to the original curriculum; and using guest speakers and visiting successful entrepreneurs.

Table 1. Impact Indicators and Targets for Vocational Training

Indicator	Target
Number of people gaining employment or more remunerative employment as a result of participation in a U.S. Government-funded workforce development program.	8,800
Percent of training course graduates retaining quality employment 3 months after graduation.	80%

Being employed is defined as having full-time work at a minimum acceptable monthly income level, which may vary from location to location, with 80 percent of program beneficiaries to be employed at such income levels after completing training. The minimum acceptable monthly income is defined as 2,400 Nepali rupees (NR) (\$34) in Nepal, NR4,000 (\$57) in India, and NR15,000 (\$214) in other countries, depending where the graduates obtain employment.⁴ However, the meaning of the retention indicator seems to be subject to interpretation. The indicator appears to imply that employment is to be maintained for at least 3 months. In practice, however, we learned that program officials informally adopted a 2-month rule as the minimum period during which a graduate had to be working to be counted as having retained employment.

To determine whether program officials were following these indicator definitions, auditors selected a sample of 76 beneficiaries reported to have met the retention indicator. We found numerous inconsistencies in how program officials defined employment retention and how they applied monthly income requirements. We noted that 9 percent of the beneficiaries in our sample had not worked for even 2 months at the time the contractor gathered data on the status of their employment. In other words, program officials counted these vocational training graduates as having met the indicator target even though they had been employed for less than 2 months. We also found that a number of income assessments for employees who were counted as having met the target included the value of food and lodging provided to the employees, contrary to the monitoring and evaluation plan’s requirement that only cash income be measured.

While the project used two very different indicators—*gaining* employment as a result of the training and *retaining* employment 3 months after the training—to measure impact, program officials seemed to define and measure the indicators in the same way. The only difference is that the first is a number and the second, a percentage.

As a result, while 80.5 percent of the program’s vocational training graduates had gained employment—quite an impressive statistic—reported data did not make it clear to what extent graduates had retained such employment. Therefore, we recommend the following action:

Recommendation 6. *We recommend that USAID/Nepal clarify the “retaining quality employment” indicator it is using to measure the impact of the Education for Income Generation Program’s vocational education component.*

Income Effects Miscalculated. The number of youth reportedly increasing their income from the agricultural productivity and microenterprise component was overstated because the contractor confused target averages with individual results in calculating. To measure the

⁴ Auditors used an exchange rate of 70 Nepali Rupees (NR) to US\$1 for these calculations.

impact of the program’s agricultural productivity and microenterprise component, the contractor uses three indicators: (1) *average dollar value of annual income from microenterprises implemented or expanded by course graduates*, (2) *average annual percent increase in income of its agricultural productivity graduates*, and (3) *number of youth increasing their income as a result of both agricultural productivity and microenterprise interventions*.

To measure these impacts, the contractor conducts annual impact assessments on a statistical sample of program participants.⁵ These participants are then revisited one year after graduating from the program to measure the increase in their annual income after the program intervention. At the time of the audit, this impact assessment was still being conducted for the Year 2 beneficiaries; thus we reviewed only the Year 1 assessment.

Audit analysis of the results of the impact assessment confirmed that the contractor had exceeded its targets for average increases in income of microenterprise graduates by a considerable margin (Table 2). However, the audit found that the average annual percent increase in income of agricultural productivity graduates was understated, while the overall number of youth increasing their income from both the agricultural productivity and microenterprise interventions was overstated.

Table 2. Targets and Results on Impact Indicators for Agricultural Productivity and Microenterprise Activities

Performance Indicator	Target	Reported Result	Audited Result
Average dollar value of annual income from microenterprises implemented or expanded by course graduates	\$250	\$373	\$373*
Average annual percent increase in income for agricultural productivity course graduates	100%	172%†	222%
Number of targeted youth increasing income	4,630	5,059	3,920

* Average dollar value of annual income from microenterprises implemented or expanded according to our calculations using the contractor’s statistical sample. Income was measured in Nepali rupees with an exchange rate of NR70 to US\$1—the same exchange rate used by the contractor.

† The contractor explained the understatement, saying the 172 percent was a preliminary calculation that had not been updated in formal reporting to USAID/Nepal.

This overstatement in the number of youth increasing income (Indicator 3) occurred because the contractor inadvertently calculated the number using the *target averages* for the first two indicators (which were based on all graduates of the specified course) as the *actual increase for each graduate* of the specified course. In other words, the contractor erroneously concluded that (1) all those who took the microenterprise training had achieved a \$250 increase in microenterprise income and (2) all those who took agricultural productivity training had increased income by at least 100 percent.

Auditors calculated that only 62 percent of microenterprise graduates and 86 percent of the agricultural graduates had achieved the desired increases in income. Auditors calculated the

⁵ The contractor obtained a statistically significant sample through a random selection of 40 beneficiaries per district where Year 1 activities took place. This provided a confidence level of 95 percent for reported results.

total number of targeted youth increasing income from agricultural productivity and microenterprise training to be only 3,920—meaning that 1,139 of the trainees did not meet the targets. As a result of the error, the current reported figure of 5,059 is overstated by 29 percent.

If uncorrected, the materiality of the overstatement of the result for Indicator 3 could grow as the program continues. Therefore, we make the following recommendation:

Recommendation 7. *We recommend that USAID/Nepal take steps to ensure that assessment results are accurately attributed from the statistical samples to the rest of the population and that accurate projections are reflected in upcoming progress reports.*

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission's response to the draft report and determined that management decisions have been reached on all seven recommendations. The mission intends to perform the following actions for each of the seven recommendations:

For Recommendation 1, the mission instructed the contractor to include a limited number of residents older than 30 to fill out groups in sparsely populated, scattered communities. The contractor is preparing a list of places where doing so is appropriate and submitted the list to USAID for approval by November 30, 2010. After the approval, the contractor will start to include limited numbers of those residents. The target date for completion of these actions is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 2, the mission directed the contractor to add a column to include final test scores in the program's database. The target date for completion of this action is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 3, the mission directed the contractor to include the final test scores in its formal reporting procedures—quarterly progress reports and annual reports—beginning the first quarter of fiscal year 2011. The target date for completion of these actions is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 4, the mission is working with the contractor to determine the cause of lower test scores in the Karnali Zone. A meeting was held with the Karnali Zone staff, in which the lower test scores were discussed and possible causes identified. Recommendations for corrective actions are being finalized. When they are completed, the mission will direct the contractor to further tailor the literacy, life skills, and entrepreneurship training component to better assist the beneficiaries in the Karnali Zone. The target date for completion of these actions is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 5, the mission has directed the contractor to develop additional lesson plans on multiplication that can be inserted into the third and fourth modules of the literacy, life skills, and entrepreneurship training component of the program. The mission will ensure that this action is carried out. The target date for completion of this action is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 6, the mission will redefine the "retaining quality employment" indicator. The target date for completion of this action is January 31, 2011. We conclude that a management decision has been reached on this recommendation.

For Recommendation 7, the mission will work with the contractor to review and revise its methodology for calculating income effects. The mission will require the contractor to use the revised methodology. The target date for completion of these actions is March 31, 2011. We conclude that a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted government auditing standards.⁶ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Nepal's Education for Income Generation Program was achieving its main goal of increasing income and employment for disadvantaged youth. To implement the program, USAID awarded a \$14.7 million contract to Winrock International, covering a 5-year period from January 3, 2008, through January 2, 2013. In addition, each component of the program is expected to give particular consideration to beneficiaries in the five districts of the Karnali Zone, the most impoverished and underdeveloped region of the country. As of June 30, 2010, cumulative obligations and disbursements under the program totaled \$8.5 million and \$6.2 million, respectively.

The audit covered program activities over a 2.5-year period, from the inception of the program on January 3, 2008, through June 30, 2010. In general, the audit involved (1) validating reported results for selected key performance indicators based on tests performed on recorded data for several districts, and (2) conducting site visits to selected program-supported communities to observe classes and interview beneficiaries. In validating the program's reported results data, the audit team focused on the results data reported under the following nine performance indicators:

Component 1 – Literacy, Life Skills, and Entrepreneurship Training	
Indicator A	Number of youth attaining literacy and numeracy skills at sufficient level to prepare them for future employment.
Component 2 – Vocational Education	
Indicator D	Percent of training graduates retaining quality employment three months after graduation.
Indicator G	Number of youth completing USG-funded workforce development programs.
Indicator I	Number of people gaining employment or more remunerative employment as a result of participation in a USG-funded workforce development program.
Component 3 – Agricultural Productivity and Microenterprise	
Indicator A	Number of targeted youth increasing income.
Indicator B	Number of targeted youth graduating from training course to improve agriculture productivity.
Indicator I	Number of targeted youth increasing income through microenterprise training.
Indicator G	Average \$ value of annual income from microenterprises implemented or expanded by course graduates.
Indicator H	Average annual % increase in income for agriculture productivity course graduates.

⁶ *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

We did not do extensive work on the scholarships component. The first scholarship recipients had not completed their studies. Nevertheless, we interviewed 13 of 141 of the first cohort of scholarship recipients and verified that the second cohort of scholarship recipients was being selected.

The scope of this testing aimed to validate the results data reported under these indicators. The judgmental sample touched on all 15 districts in the Mid-Western Region of Nepal. For each selected program activity, the audit team checked the results data reported during the 2.5-year audit period against supporting records on file with the contractor. Since this testing was based on a judgmental—not a statistical—sample of indicators and provinces, the results and overall conclusions related to this analysis were limited to the items tested and could not be projected to the entire audit universe.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the program and ensure that its contractor was providing adequate oversight of program activities. Additionally, the auditors examined the mission's fiscal year 2009 annual self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982,⁷ to determine whether the assessment cited any relevant weaknesses.

Audit fieldwork was performed at the USAID/Nepal mission as well as at the contractor's offices in Kathmandu and Nepalganj from August 9 to September 1, 2010. In that timeframe, the audit team made a 14-day field trip to 7 of the 15 districts in the Mid-Western region (Banke, Bardiya, Surkhet, Dailekh, Dang, Pyuthaan, and Rolpa) to conduct site visits to selected communities to observe supported classes and interview program beneficiaries as well as contractor staff. During this field trip, the auditors visited 24 communities and obtained input from over 300 individuals.

Methodology

To determine whether the program was achieving its main goal, the audit team initially interviewed key staff at USAID/Nepal's General Development Office and the contractor's offices to gain an understanding of the program, all of the key players and their roles and responsibilities, and the reporting procedures and controls in place for monitoring the program. Additional work to answer the audit objective was divided into two parts: (1) validating the results data reported under selected key performance indicators against supporting records on file with the contractor and (2) conducting field trips to selected communities to interview a sample of beneficiaries supported under the program.

In validating the program results, the audit team initially identified key performance indicators to be tested. The audit team then reviewed the results data reported under these selected indicators, from the inception of the program in January 2008 through June 2010, checking the reported data against available supporting records on file with the contractor. This process entailed a review of the cumulative results data contained in the program's quarterly indicator charts for the quarter ending June 30, 2010. To test the reliability of the results data reported under the nine sampled performance indicators, the audit team checked the data against figures recorded in the program's database and in supporting source documents on file at the contractor's office. To conduct the field trips, the audit had planned to visit selected activity sites in 8 of the program's 15 districts in an effort to view a wide range of activities. Unfortunately, the

⁷ Public Law 97-255, as codified in 31 U.S.C. 3512.

last district to be visited, Salyan, was unreachable due to landslides caused by heavy rain. We do not believe the exclusion of this district from our site visits materially affected the results of this audit.

To assess the test results, the audit team established a materiality threshold of 80 percent that was based in part on the challenging environment in which the program operated. For example, if at least 80 percent of tested results data reported under a specific performance indicator for a selected province were found to be adequately supported, the auditors concluded that the reported results were reasonably accurate.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Bruce Boyer, Regional Inspector General/Manila,

FROM: Kevin A. Rushing, D.V.M., Mission Director, USAID/Nepal /s/

DATE: November 23, 2010

SUBJECT: USAID/Nepal Management Comments on Draft Audit Report of USAID/Nepal's Education for Income Generation Program (Report No. 5-367-11-00x-P)

REFERENCE: WMurphy/KRushing memo dated October 25, 2010

Thank you for providing the Mission the opportunity to review the subject draft audit report. We would like to express our gratitude for the professionalism, flexibility, resourcefulness, and hard work exhibited by the audit team. The Mission agrees that implementation of the audit recommendations will improve the effectiveness of the Mission's Education for Income Generation program and the efficiency of Mission operations. We are providing confirmation on the corrective actions that have been taken or are planned to be taken to address the recommendations in the audit report.

MISSION COMMENTS TO AUDIT RECOMMENDATIONS

Recommendation 1: We recommend that USAID/Nepal adjust, if cost effective, the eligibility requirements for targeted beneficiaries of the Education for Income Generation Program to include a limited number of disadvantaged residents older than 30 who could benefit from program interventions so as to allow youth in more remote, sparsely populated communities to participate in the program.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission has instructed the contractor to include a limited numbers of residents older than 30 to fill out groups in sparsely populated/scattered communities. The contractor is preparing a list of Village Development Committees (VDCs) where doing so is appropriate and will submit the list to USAID for approval by November 30, 2010. After the approval, the contractor will start

to include limited numbers of those residents. The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrate inclusion of residence older than 30 years in the program.

Additional Comments

To clarify EIG is working in remote communities but because of the age limitation of 16-30 EIG staff have to bypass some sparsely populated communities and scattered households where there are not enough marginalized youth to form groups. EIG staff sometimes have to travel to even more remote communities to find a sufficient number of beneficiaries. In addition, there is sufficient demand to fully utilize the resources of this activity. If one sparsely populated community does not have sufficient beneficiaries of the required age, this does not mean the resources are not being expended. In fact they are being expended in the target area, within those communities that have sufficient density.

Recommendation 2: We recommend USAID/Nepal direct its contractor to modify the program's database to include final test scores, instead of recording only pass/fail information, to enable the contractor to identify weaknesses and tailor its interventions to address the educational needs of beneficiaries.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission has directed the contractor to add a column to include final test score in the database. The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates the addition of a column for the final test score in the database.

Recommendation 3: We recommend that USAID/Nepal direct its contractor to include final test scores in its formal reporting procedures.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission has directed the contractor to include the final test scores in its formal reporting procedures – quarterly progress reports and annual reports—from the 1st quarter of FY 2011. The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates the inclusion of the Final test scores in the contractor's upcoming quarterly progress report.

Recommendation 4. We recommend that USAID/Nepal determine the cause for the lower tests score in the Karnali Zone and make adjustments, as necessary, to tailor the literacy, life skills, and entrepreneurship training component of the Education for Income Generation Program to better assist the beneficiaries located there.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission is working with the contractor to determine the cause for the lower test score in the Karnali Zone. Based on the determination, Mission will direct the contractor to further tailor the literacy, life skills and entrepreneurship training component of the EIG program to better assist the beneficiaries in the Karnali Zone. This will be addressed during the 1st quarter of FY 2011.

A meeting was held with the Karnali Zone staff during the EIG annual review workshop in October 2010, whereby the lower test scores were discussed and possible causes identified. Recommendations for corrective actions to be taken are being finalized.

The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates the completion of the Mission determination and adjustments in the training component.

Additional Comments

USAID/Nepal would also like to clarify that the EIG program is monitoring and tailoring the literacy, life skills and entrepreneurship training curriculum based on the beneficiaries input. The program is decentralized with teachers and supervisors given the flexibility to adjust the curriculum as need be based on feedback received from the targeted youth. The program has been holding teacher training courses semi-annually and during these trainings, teachers are asked if the course is meeting the students need. In addition, this year, during the spring of 2010, the contractor conducted an assessment with Samjhauta facilitating the assessment of the literacy classes.

During this assessment exercise, it was learned that some of the challenges in the Karnali, (relating to lower overall understanding of concepts) are due to problems related to attendance. Snow and migratory labor reduce the number of days beneficiaries can attend the class. EIG is addressing this issue by each class agreeing to hold longer classes during times when people can attend classes and during their normal holidays.

In addition, through this process of seeking feedback from the classes through the teachers and then bringing the teachers and supervisors together in the district and in regional meetings and teacher trainings we have learned about students' needs and have made adjustments such as:

1. *Ensuring individual class times are set by the students as well as their seasonal days off and the makeup periods*
2. *Adding a one month credit and savings module to the original curriculum*

3. *Improving how we link literacy beneficiaries to self-employment, micro-finance institutions and both government and NGO service providers*
4. *Linking agriculture and literacy and conducting the training concurrently whereas in the first and second year one followed the other*
5. *Increasing group exposure visits to successful entrepreneurs based on their request*
6. *Using guest speakers (from the district center) and taking beneficiaries to the district centers to increase their understanding of how to use government services and is now incorporated into nearly all the classes.*
7. *Providing solar lighting where there have been requests for night classes in areas where there was no electricity.*
8. *Introducing family planning and anti-trafficking materials, posters and charts with key learning messages, special classes held by the VDC, district health office, DADO, DLSO etc.,*
9. *Allowing current C1 class recipients access at their request to agriculture training during the same year as their literacy course.*

These have been highlighted in the formal reporting procedures in quarterly and annual reports of the project.

USAID/Nepal will ensure that EIG will continue to seek feedback and make adjustments to the Literacy, Life Skills, and Entrepreneurship Training on a class by class basis and on a district by district basis. It will also ensure that the programs are tailored further to better assist beneficiaries located in the Karnali Zone. EIG will consult at the district level in each of the Karnali Districts and further come up with additional recommendation for implementation in year 4.

Recommendation 5. We recommend that USAID/Nepal work with its contractor to include more math content in its literacy, life skills, and entrepreneurship training curriculum.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

Mission has directed the contractor to develop additional lesson plans on multiplication that can be inserted into the existing modules 3 and 4. The Mission will ensure that this is addressed from Year 4 onwards (FY 2011).

The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrate the inclusion of more math content in the training curriculum.

Recommendation 6. We recommend that USAID/Nepal clarify the “retaining quality employment” indicator it is using to measure the impact of the Education for Income Generation program’s vocational education component.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission will clarify by re-defining the “retaining quality employment” for the measurement of the indicator.

The target date for completion of these actions is January 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission re-defines the “retaining quality employment”.

Recommendation 7. We recommend that USAID/Nepal take steps to ensure that assessment results are accurately attributed from the statistical samples to the rest of the population and that accurate projections are reflected in upcoming progress reports.

The Mission agrees with this recommendation.

Action Taken or To Be Taken

The Mission will work with the contractor to review and revise the projection methodology for attributing statistical samples to the rest of the population in order to obtain an accurate projection. The Mission will require the contractor to use the revised methodology for future projections and reflect the projections in the progress reports. The target date for completion of these actions is March 31, 2011.

Based on the above, the Mission requests RIG/Manila concurrence that management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates the completion of the review and revision of the methodology and reflection of the projections in the upcoming progress report.

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