



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/YEMEN'S COMMUNITY LIVELIHOODS PROJECT

AUDIT REPORT NO. 6-279-14-001-P  
OCTOBER 7, 2013

CAIRO, EGYPT



*Office of Inspector General*

October 7, 2013

**MEMORANDUM**

**TO:** USAID/Yemen Mission Director, Herbie Smith

**FROM:** Regional Inspector General, Catherine M. Trujillo /s/

**SUBJECT:** Audit of USAID/Yemen's Community Livelihoods Project  
(Report No. 6-279-14-001-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them, without attachments, in Appendix II.

The final report contains nine recommendations to help USAID/Yemen improve its Community Livelihoods Project. In its comments on the draft report, USAID/Yemen generally agreed with all nine recommendations. Based on our evaluation of the management comments, we acknowledge that the mission made a management decision on all recommendations and has taken final action on Recommendations 3, 5, and 7.

Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1, 2, 4, 6, 8 and 9.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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# SUMMARY OF RESULTS

Yemen ranks as one of the world's poorest countries and one with a high population growth rate.<sup>1</sup> This combination is placing a serious strain on its already limited resources. Adding to these challenges, Yemen has endured political strife and secessionist movements since the 1960s, which have hurt safety and stability.

These conditions drove USAID/Yemen to launch the Community Livelihoods Project to mitigate the causes of instability in Yemen. On July 1, 2010, the mission signed a 5-year, \$124 million cooperative agreement with Creative Associates International Inc. to carry out the project. Creative was to implement a variety of activities across Yemen to increase employment opportunities, promote community participation, strengthen local governance, and improve access to quality services, particularly in health and education. As of March 31, 2013, approximately \$59.5 million had been obligated and \$50.7 million disbursed for the project.

The project ran into problems early. Beginning in January 2011, widespread demonstrations rippled throughout a number of Middle Eastern countries in what later became the "Arab Spring." The demonstrations sparked a revolution in Yemen that ended the 33-year rule of President Ali Abdullah Saleh. A new president took office on February 25, 2012, a date that the audit team and many other people mark as the end of the revolution in Yemen.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit as part of its fiscal year 2013 audit plan. Because of the revolution and the sweeping effects it had on the country and the project, the audit divided its analysis into two periods: pre-revolution (July 1, 2010, to February 2012) and post-revolution (March 2012 to March 2013). RIG/Cairo conducted this audit to answer two questions:

1. What was the status of USAID/Yemen's Community Livelihoods Project through the end of Yemen's revolution?
2. Has USAID/Yemen made adjustments to the Community Livelihoods Project since Yemen's revolution to improve project performance?

Overall, the project has delivered mixed results. In response to the first question, the audit determined that the project made limited progress in its first 20 months (page 5). It was delayed from the beginning because USAID/Yemen was slow to introduce the project to various officials in the Yemeni Government. The revolution and subsequent personnel evacuations continued to postpone progress. After the revolution, the project encountered additional delays as staffing and security challenges arose.

In response to the second question, the audit determined that USAID/Yemen did make a number of adjustments to improve and focus the project, creating some notable results. Officials from Yemen's Ministry of Agriculture and Irrigation told the audit team they were extremely pleased with the assistance that USAID/Yemen was providing, particularly the activities related to pest control and illustrative farming plots. The team visited a cooperative farm, shown in the

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<sup>1</sup> The UN's *Human Development Report 2013* ranks Yemen 160 of 186 countries in terms of overall human development. According to the CIA's *World Factbook*, Yemen has the 30th highest growth rate out of 232 countries.

photos below, where the project installed a greenhouse, drip irrigation system, solar-powered water pump, and rainwater harvesting system. Feedback from beneficiaries was positive, including a farmer who reported that the mission's interventions helped him double his farm's production this season.



**A Yemeni cooperative farm now has a greenhouse (left), solar-powered water pump (upper right), and irrigation system (bottom left), thanks to a USAID/Yemen project. (Photos by RIG/Cairo, May 2013)**

We also saw some signs of success at a school the project rehabilitated, shown in the photos below.



**The Al-Jeel Al-Jadeed School in Sana'a needed major renovations. (Photos above and below by Creative Associates International Inc.)**



**USAID/Yemen's project has renovated the school's classrooms and stairwells, thus making it a more inviting place to learn.**

Despite these successes and changes, the audit identified a number of problems with the project.

- USAID/Yemen was slow to formalize changes (page 7). Seven months after the mission scaled back activities, it had not modified the cooperative agreement to reflect the changes.
- Third-party monitoring was not integrated well into the mission's oversight of the project (page 8). The mission was not using findings from the monitoring service to improve the project.
- The quality of deliverables was inconsistent (page 9). Creative's internal control and monitoring system was not strong enough to make sure all the goods were delivered and in working order.
- Data were unreliable and reporting systems were broken (page 11). The project's data were managed in four different systems, and information in them differed.
- The mission's funds control system was not precise (page 11). USAID/Yemen did not have a method to confirm that all the funds were used correctly.

To address these problems and to strengthen the effectiveness of the Community Livelihoods Project, this report includes nine recommendations. We recommend that USAID/Yemen:

1. Finalize its approach for the remainder of the Community Livelihoods Project by formally modifying the cooperative agreement (page 8).
2. Require Creative to update its project and performance management plans to reflect the changes in the modification (page 8).
3. Perform a documented review of its standard operating procedures with the Yemen Monitoring and Evaluation Project, and if necessary, amend the procedures to improve the communication of key findings (page 9).
4. Require Creative to implement a performance management plan that includes the Yemen Monitoring and Evaluation Project's role, authorities, and responsibilities as a third-party

monitor for the Community Livelihoods Project, as outlined in the mission's procedures (page 9).

5. Require Creative to update its performance management plan to include a control system to validate the delivery of goods (page 10).
6. Require Creative to update its performance management plan to clearly delineate its responsibility for monitoring project activities and reporting findings in an accurate, timely fashion (page 11).
7. Require Creative to improve its data reporting by consolidating the data system, implementing a procedure manual to formalize data collection, and implementing a data validation system (page 11).
8. Deobligate funds associated with activities eliminated from the project (page 12).
9. Conduct a written analysis to determine whether the project would benefit from creating a new funds control system. If so, it should implement the system to track funds for the remainder of the project (page 12).

The details of our audit findings are in the sections below. The audit's scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 13, and the full text of management comments, without attachments, is included in Appendix II.

# AUDIT FINDINGS

## Project Did Not Make Much Progress in Its First 20 Months

When the project's cooperative agreement was signed, USAID expected to spend \$124 million; \$76.2 million of that—nearly 62 percent of the budget—was to go directly toward funding stabilization activities throughout Yemen. According to the original plan, the project was supposed to implement at least 2,100 activities over 5 years, about 1,000 of them during the first 2.

The audit determined that the project fell well short of its plans. By the end of the revolution in February 2012, after 20 months of operation the project had initiated only 150 activities and was not on track to reach its interim goal of 1,000. A series of events hurt the project's ability to follow the plan.

**Slow Start-up.** The project experienced significant delays from the onset because USAID/Yemen and Creative were unable to meet with ministries and governorates to inform them about the new project. To maintain strong relationships between USAID and the Yemeni Government, the mission director felt that it was important to introduce this new project to the Yemeni counterparts before initiating activities.

This introductory period was built into the project's original plan and was supposed to last for only 2 weeks. However, it lasted approximately 6 months, as meetings with the various Yemeni stakeholders were delayed.

**Revolution and Evacuations.** During this period of unrest, a number of nongovernmental organizations and members of the international community evacuated from the country, including key people from USAID/Yemen and Creative. USAID/Yemen's midterm evaluation report estimated that the evacuations caused the project to lose approximately 6 months' worth of work time.

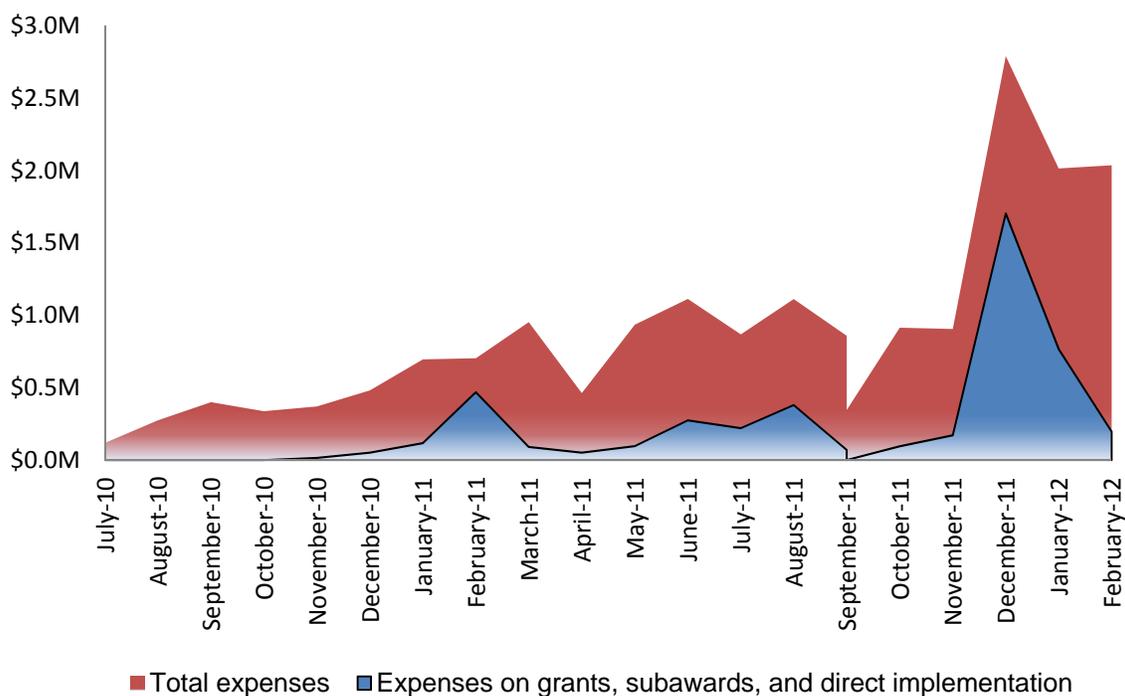
**Staffing and Security Challenges.** According to Creative, security conditions in Yemen made it difficult to attract suitable employees. Additionally, security problems made it increasingly difficult to travel in the country to implement community projects.

This period of limited progress had a number of unanticipated effects on the project. Most importantly, large sums of money were being spent just to maintain Creative's operations in the first 20 months. As shown in the graph on the next page, during this time activity support costs consistently outstripped direct activity expenses. According to our analysis of Creative's financial information, by the time the revolution ended in February 2012, the project only spent 25.5 percent (\$4.8 million) of \$18.7 million on grants, subawards, and direct implementation.<sup>2</sup>

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<sup>2</sup> These are activities implemented by Creative.

**Figure 1. Expenses From July 2010 to February 2012 (Unaudited)**



**Source: Creative Associates International Inc.**

Despite spending almost 75 percent of project funds on costs related to start-up and operations, Creative was still not well prepared. The midterm evaluation concluded that while the revolution affected progress, it did not provide sufficient basis for the project’s failure to develop the systems and staff necessary for success. The evaluation described the grants system as an “inexcusable failure” and said the monitoring and evaluations system was “just not acceptable after 18 months.” The audit agreed with this assessment and noted that Creative was still struggling to finish its monitoring and evaluations system nearly 3 years after the project started.

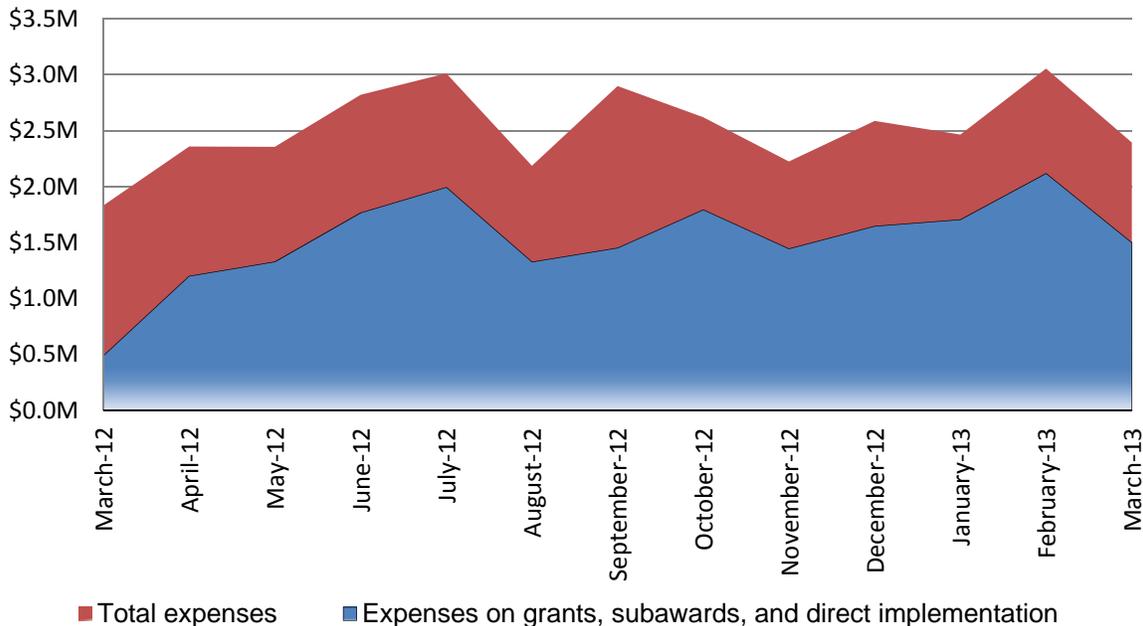
To improve the efficiency of the project, USAID/Yemen directed Creative to institute a number of key changes. It installed a new grants management system, which was more capable of managing a project of this scale. It brought in new leadership. In addition, Creative started to implement more activities itself, rather than issuing subgrants to other organizations to complete work.

Additionally, the mission adjusted the project’s approach and strategy. According to USAID/Yemen, the project lacked focus, and its initial activities were too small and geographically dispersed to bring about lasting change. As such, the mission, in consultation with the State Department and USAID’s Administrator, decided to focus project activities on certain sectors and functions, and directed activities to more populated areas to maximize their effects (Appendix III has maps of the areas covered before and after the revolution). The project also increased its coordination with various ministries, aligning its interventions with the Yemeni Government’s priorities. According to Creative’s chief of party, this important adjustment improved the reach and speed of the project.

Because of these changes, the project steadily improved its operations, as shown in Figure 2 on the next page. After the end of the revolution, the project increased its efficiency and

implemented 95 projects totaling \$15.5 million. During this period, Creative spent 60 percent of its expenses on grants, subawards, and direct implementation, compared with 25.5 percent before the end of the revolution.

**Figure 2. Expenses From March 2012 to March 2013 (Unaudited)**



**Source: Creative Associates International Inc.**

Overall, the project did not make much progress in its first 20 months, and this report does not offer recommendations for this finding because they would have had limited relevance to the project with all of its changes. In contrast, the remainder of the report includes recommendations to address the audit’s second question of whether these changes improved project performance.

## **Mission Was Slow to Formalize Changes**

USAID’s Automated Directives System (ADS) 202.3.6.3 states that missions must adjust projects when conditions warrant. According to the policy, changes may include “developing an entirely new project and instrument, or simply modifying and changing existing projects or activities.” The agreement officer and, if appropriate, general counsel should be consulted as soon as possible when a mission considers changes that may affect a legal agreement. While ADS 304.3.4.e allows USAID to direct certain elements of a cooperative agreement, ADS 303.3.11 states that only the agreement officer has the authority to make major changes to a project description and budget.

Despite this guidance, USAID/Yemen was slow to get the agreement officer’s authority to make these changes and started to decrease the scope without formally modifying the cooperative agreement. According to the annual plan updated in March 2013, the project had already ended activities in one sector and was poised to conclude activities in two more, as outlined in the

following schedule:

1. Governance – activities concluded in October 2012
2. Economic Growth – completion of activities in 2013
3. Health – completion of activities in 2013
4. Agriculture – negotiation on the continuation beyond June 2013
5. Education – a plan for continuation beyond June 2013

This plan differed greatly from the project’s strategy of implementing an “integrated set of activities bringing together programs for health, education, economic growth, agriculture and governance.” At conclusion of the audit fieldwork and 7 months after the project ended work in the governance sector, mission officials still had not formally modified the cooperative agreement to reflect this change.

The mission attributed this lapse to the revolution. With the fast-paced changes sweeping the nation, the mission and Creative had trouble developing a clear, unified approach to stabilization. The delay continued because the mission wanted to wait until it finalized its country development strategy before formalizing changes with the agreement officer.

Significantly reducing the scope of the project before the agreement officer has formally authorized the actions could lead to a number of negative effects. It could result in Creative moving forward on activities intended for closure or revision and disrupt implementation. It could also create the opportunity for miscommunication with Creative; the chief of party said the organization was confused about the mission’s vision for the project because changes were made frequently and informally in meetings. A formal modification to the cooperative agreement may quell this ambiguity.

Last, without an official decision about whether to end activities in governance, economic growth, and health, Creative has no formal direction for these sectors. According to Creative’s financial information, the audit estimates that nearly \$24,000 in salaries could be saved per month when USAID/Yemen makes the formal determination to end those activities. To address this problem, we make the following recommendations.

***Recommendation 1.*** *We recommend that USAID/Yemen finalize its approach for the remainder of the Community Livelihoods Project by formally modifying the cooperative agreement.*

***Recommendation 2.*** *We recommend that USAID/Yemen require Creative Associates International Inc. to update its project and performance management plans to reflect the changes in the modification.*

## **Third-Party Monitoring Was Not Integrated Well Into Project Oversight**

USAID recognizes the risks associated with working in high threat environments. In such situations, ADS 202.3.6.4 permits missions to use third party-monitoring methods as a basis for approving deliverables and performance reports.

Although USAID/Yemen had in place the Yemen Monitoring and Evaluation Project (YMEP), a third party charged with monitoring project activities, the monitoring services were not integrated

well in the mission's oversight of the project. When YMEP identified potential problems, these issues were not being brought to the attention of appropriate mission officials in an effective, timely manner. For example, when YMEP found that some substandard medical equipment was delivered (discussed on page 9), key mission officials did not know about it until at least 8 months after YMEP issued its report.

USAID/Yemen did not integrate YMEP well because its role, function, and authority as the mission's third-party monitor was not clearly defined from the onset of the project. According to the cooperative agreement, Creative was to have a "close and cooperative relationship" with YMEP, but exactly how the two were to work together was not spelled out. The project's subsequent performance management plans never expanded YMEP's role either. Also missing were clearly defined procedures to ensure that important matters from the third-party monitoring reports were being brought to the attention of key mission personnel.

As an extension of USAID/Yemen's oversight of the Community Livelihoods Project, YMEP should have been seamlessly integrated into the mission's monitoring practices. Without clear procedures on how to do that, the mission is not maximizing the benefits from the monitoring team's work and runs the risk of learning about potential problems while there could be time left to resolve them. Additionally, not defining the third-party monitor's role can create a tense working relationship between the implementing partner and the monitoring team. Both groups have already reported that their relationship was strained because they cannot agree on the team's role and authority.

To improve USAID/Yemen's use of YMEP's ability to monitor the Community Livelihoods Project, we recommend the following.

***Recommendation 3.*** We recommend that USAID/Yemen perform a documented review of its standard operating procedures with the Yemen Monitoring and Evaluation Project and, if necessary, amend the procedures to improve the communication of key findings.

***Recommendation 4.*** We recommend that USAID/Yemen require Creative Associates International Inc. to implement a performance management plan that includes the Yemen Monitoring and Evaluation Project's role, authorities, and responsibilities as third-party monitors for the Community Livelihoods Project, as outlined in the mission's procedures.

## **Quality of Deliverables Was Inconsistent**

The quality of the USAID's interventions is of utmost importance for USAID, and one of the project's principle goals was to increase access to quality services in Yemen. However, despite this goal, the project ran into a number of problems with some of its activities.

**Health Sector.** One of the project's activities was to provide medical and laboratory equipment to a local health center in the capital of Sana'a. During the audit, the team learned that the center reported significant problems with the quality and completeness of the medical equipment it received. According to YMEP's monitoring report, 7 of the 50 items delivered differed from what Creative ordered. The center's director said none of the items delivered had warranties and user manuals, and some arrived in poor condition. YMEP also reported that a \$4,800 electric generator was not installed and remained unused for months.

**Education Sector.** During a number of site visits, mission employees found that some school rehabilitation projects in the south were not done well; some of the materials used were of unacceptably poor quality, and some of the recently installed fixtures were already falling apart, as shown in the photos below.



**Work done on these school bathrooms has not held up well. (Photos by USAID/Yemen)**

These problems happened because Creative did not have strong internal controls for procurements. The organization did not validate the delivery of goods at the point of receipt. Instead, Creative sent items it procured directly to delivery locations without having the staff or the mission check to make sure orders were complete and equipment was in working order.

Secondly, Creative did not have a strong monitoring system that kept the mission abreast of potential issues. Both the mission and YMEP identified gaps in Creative's monitoring practices when it did not follow up on activities. In the schools discussed above, Creative did not identify the quality issues prior to the mission's impromptu visit. The audit studied all of Creative's quarterly progress reports and noted that it did not report quality concerns to the mission regularly—suggesting that either Creative was unaware of problems or chose not to report them.

Without having a quality control system to validate the delivery of goods, USAID/Yemen could be subject to fraud and waste, and may be providing substandard items to beneficiaries. As a result, these items may be left unused or may need to be replaced immediately. Moreover, if substandard goods are indeed delivered, USAID's reputation could be damaged. Luckily, in the case of the substandard medical equipment, Creative reported that the faulty vendor corrected the order and assumed the replacement costs.

Additionally, Creative's ineffective monitoring practices put the mission at risk of not being able to address problems quickly and take corrective measures to improve the project during implementation. Because of the vulnerabilities associated with Creative's inadequate internal controls and monitoring systems, we recommend the following.

***Recommendation 5.*** We recommend that USAID/Yemen require Creative Associates International Inc. to update its performance management plan to include a control system to validate the delivery of goods.

**Recommendation 6.** *We recommend that USAID/Yemen require Creative Associates International Inc. to update its performance management plan to clearly delineate its responsibility for monitoring project activities and reporting findings in an accurate, timely fashion.*

## **Data Were Unreliable and Reporting Systems Were Broken**

ADS 203.3.11.1 outlines the importance of maintaining high quality data. To help performance monitoring and reporting, the data collected ought to be accurate and should have safeguards to minimize the risk of manipulation or transcription errors.

Despite this guidance, the data the project reported were inaccurate and susceptible to human error. The information in Creative's database for three randomly selected indicators did not match the supporting documentation. In one case, the project incorrectly transcribed 2,707 beneficiaries as 2,747. The team also found a transcription error in Creative's December 2012 quarterly update; the implementer reported that mobile medical teams in the Shabwah governorate provided services to 2,317 beneficiaries, but the project's signed supporting document listed only 2,137.

The root cause for such inconsistent, unreliable data was Creative's poor monitoring and evaluations system. At the time of the audit, the data were kept in four separate systems: binders, a Microsoft Excel spreadsheet, a Microsoft Access database, and YMEP's online database. The systems were not integrated properly as data from the different systems failed to match, and none of the systems could be considered the main one.

Furthermore, Creative did not effectively separate reporting duties to help verify data accuracy; the monitoring and evaluations department was responsible for consolidating, reporting, and validating data. Creative also did not have a system of checking the accuracy of reported achievement totals, which led to under- and over-reporting.

Without a strong data collection and validation system, information reported to the mission may not be reliable and could lead to making bad decisions. Moreover, with inaccurate data, USAID/Yemen is misrepresenting the project's outcomes. To help improve the data quality, we make the following recommendation.

**Recommendation 7.** *We recommend that USAID/Yemen require Creative Associates International Inc. to improve its data reporting by (1) consolidating the data system, (2) implementing a procedure manual to formalize data collection, and (3) implementing a data validation system.*

## **Mission's Funds Control System Was Not Precise**

The U.S. Government requires federal agencies to establish an effective funds control system to make sure funds are used only for authorized purposes. Congressional earmarks are used regularly to direct funds for specified activities. As a recipient of congressional funds, USAID must follow parameters set forth under the direction of Congress and adhere to the earmarks.

The Agency has guidelines to make sure its activities adhere to these rules. In the case of health programs, USAID published a mandatory reference for ADS 200, “Guidance on the Definition and Use of the Global Health Programs Account,” to help verify that global health program funds are “used for the purpose for which they are appropriated by . . . adhering to . . . congressional earmarks and directives.” Similar guidance is offered for activities in other sectors, including education and governance.

Despite this guidance, USAID/Yemen could not confidently report that it was using all of its project funds according to their specified purposes and directives. Moreover, given the information provided by both USAID/Yemen and Creative, we could not determine whether there was a funds control violation.

The mission did not have a control system capable of tracking exactly how each funding stream was being spent for this multimillion dollar project; by December 2012, the project had already received money from 47 funding streams, originating from 13 different activity areas. Because the project crossed multiple sectors, the lack of such a system made it difficult for the mission to trace activities to the funds that financed them.

USAID approved Creative to receive payment using a letter of credit. In general, when using a letter of credit, the Agency issues payments by withdrawing funds in the order in which they were added to the project instead from specific funding streams.

Using this type of system, USAID/Yemen did not have sufficient oversight in the payment process to accurately track whether funds were being used according to their intended purposes. As a result, funds intended for a specific sector, such as governance, may have been temporarily used to finance an activity in a different sector, such as education, because the governance funds were next in line to be withdrawn.

This complication could lead to using funds improperly, a risk that is more pronounced because of the project’s plan to end work in some sectors. Therefore, if funds intended for activities in the governance sector were indeed used to temporarily finance an education activity, the project would not have an opportunity to replenish them because all work in the governance sector has already ended. As a result, USAID/Yemen may be unintentionally spending earmarked funds for purposes different from lawmakers’ intent. Without a strong funds control system, the mission cannot track its funds properly and cannot accurately answer congressional inquiries on how earmarks are used.

To help be certain that project funds are being used properly, we make the following recommendations.

***Recommendation 8.*** *We recommend that USAID/Yemen deobligate funds associated with activities eliminated from the project.*

***Recommendation 9.*** *We recommend that USAID/Yemen conduct a written analysis to determine whether the project would benefit from creating a new funds control system. If so, it should implement the system to track funds for the remainder of the project.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Yemen generally agreed with all nine recommendations. Based on our evaluation of management comments on our draft report, we acknowledge management decisions for all recommendations. Final action has been taken on Recommendations 3, 5, and 7, and they are closed upon issuance of the audit report. A detailed evaluation of the comments follows.

**Recommendation 1.** The mission agreed to finalize its approach for the remainder of the project and formally modify the cooperative agreement. It is negotiating with Creative to modify the final 2 years. The modification will include a reduction in the total estimated cost of the agreement to reflect the two remaining sectors the project will focus on: agriculture (1 year) and education (2 years). The mission anticipates that the modification will be completed by October 18, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 1.

**Recommendation 2.** The mission will require Creative to update its project and performance management plans to reflect the changes in the modification. The mission reported that when it finalizes the modification, Creative will update the plan within 30 days and submit it for approval. The mission anticipates getting the revised plan by November 18, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 2.

**Recommendation 3.** The mission performed and documented its review of its standard operating procedures with YMEP. Based on the review, YMEP modified the procedures with a focus on disseminating key findings quickly and accurately. The revised procedure was issued effective September 18, 2013. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 3.

**Recommendation 4.** The mission agreed for Creative to implement a performance management plan that includes YMEP's role, authorities, and responsibilities as third-party monitor. Moreover, mission officials said they thought this recommendation would be useful for all implementing partners and as such, asked YMEP to develop standard operating procedures clarifying its role with the implementing partners when developing and implementing their performance management plans. The written procedures have been completed and the standardized plan format for USAID/Yemen is under review. These procedures will be integrated into the project by November 18, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 4.

**Recommendation 5.** The mission agreed to have Creative update its performance management plan to include a control system to validate the delivery of goods. In response, Creative modified its purchase order procedures for the acceptance of goods and services to include completion of an inspection and acceptance report prepared by qualified technical staff (e.g. medical professionals and construction engineers) to confirm that items meet the required standards, as well as to reject those that are not adequate. Based on the mission's comments

and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 5.

**Recommendation 6.** The mission agreed to require Creative to update its performance management plan to clearly delineate its responsibility for monitoring project activities and reporting findings in an accurate, timely fashion. In response, Creative's monitoring and evaluation unit corrected its data collection and storage system. It will include this process as part of its updated performance management plan, which will be submitted by November 18, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 6.

**Recommendation 7.** The mission agreed to require Creative to improve its data reporting by consolidating the data system, implementing a procedure manual to formalize data collection, and implementing a data validation system. In response, Creative finalized a new data collection and management system that consolidates the data system and implemented a procedure manual to formalize data collection, reporting, and validation processes. The mission approved the manual on September 28, 2013. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 7.

**Recommendation 8.** The project's activities in economic development and health will end in September 2013 and October 2013 respectively. The mission agreed to work with the project to deobligate any funds leftover by December 31, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 8.

**Recommendation 9.** The mission agreed to conduct a written analysis to determine whether the project would benefit from creating a new funds control system. It is working with the agreement officer to modify the agreement to include procedures for a new funds control process that requires a contractor to include the correct funding source upon submitting each invoice, and to ask USAID/Washington's Letter of Credit Office to use the funding mentioned in the invoice. Finally, at the end of the project the mission will coordinate with Cairo and Washington to reconcile the previous disbursements. The mission anticipates that this modification will be completed by October 18, 2013. Based on the mission's comments, we acknowledge that it made a management decision on Recommendation 9.

# SCOPE AND METHODOLOGY

## Scope

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

The purpose of this audit was to answer two questions:

1. What was the status of USAID/Yemen's Community Livelihoods Project through the end of Yemen's revolution?
2. Has USAID/Yemen made adjustments to the Community Livelihoods Project since Yemen's revolution to improve project performance?

The audit was performed in Yemen from May 18 through May 30, 2013, and covered activities from the project's start on July 1, 2010, through March 31, 2013. As of March 31, 2013, approximately \$59.5 million had been obligated and \$50.7 million disbursed. The audit tested the amounts by comparing financial data from the Agency's accounting system with the various letter of credit payments.

The team conducted site visits with beneficiaries in the agriculture, education, and health sectors. We assessed the project's significant controls related to implementation, reporting, and review of performance measures and indicators. We also reviewed and assessed the internal controls in place to monitor project activities, including the site visit reports, monitoring and evaluation data systems, and procedures.

## Methodology

To answer the audit objective, we first gained an understanding of what USAID/Yemen intended to accomplish through its Community Livelihoods Project. We did this by reviewing important project documentation such as the cooperative agreement, project modifications, annual work plans, and financial data.

To put Yemen's political environment into context, we researched news about the revolution and conducted interviews to learn about the complexities of working in a country experiencing such a change.

The audit started its fieldwork by reviewing the project's grants management database. The team analyzed the various grants administered in different periods. Next, the audit team compared the activities with the amount of money the project spent. We did a detailed financial analysis to reconcile financial data from USAID/Yemen and Creative.

To answer the audit objective and analyze the performance of the project, the audit team interviewed mission staff, individuals from Creative, embassy employees, beneficiaries, and Yemeni Government officials to gain an understanding of the project. Interviews were followed up with a limited number of site visits to validate that activities were completed and of

acceptable quality. We visited the Al-Jeel Al-Jadeed School in Sana'a, a demonstration farm plot also in Sana'a, and an implementer of the project's midwives activity.

Because of the security situation in Yemen, the audit team selected site visits according to the accessibility of the location. Such a limited sample cannot be projected to represent activities in other areas of the country. For these activities, the team relied on reporting from the mission's third-party monitors. Auditors reviewed their reports and interviewed the team. Findings from the third-party monitors were verified with mission staff who also conducted similar site visits.

# MANAGEMENT COMMENTS



October 3, 2013

## MEMORANDUM

TO: Catherine M. Trujillo, Regional Inspector General

FROM: Herbie Smith, USAID/Yemen Mission Director \s\

SUBJECT: Management Comments to Draft Audit Report No. 6-279-13-0XX-P

Thank you for affording the USAID/Yemen Mission an opportunity to respond to the draft audit of USAID/Yemen's Community Livelihoods Project (CLP), implemented by Creative Associates International Inc. USAID/Yemen has reviewed the audit findings and recommendations and we are working diligently to address the weaknesses identified in the report. Specifically, we have responded to the nine recommendations outlined in the draft OIG audit report dated August 7, 2013, by taking the following action or actions:

### RECOMMENDATIONS AND ACTIONS:

1. RECOMMENDATION: Finalize its approach for the remainder of the Community Livelihoods Project by formally modifying the cooperative agreement.
  - RESPONSE: Negotiations are currently ongoing between USAID and Creative to modify the final two years of the agreement. The modification will include a reduction in the total estimated cost of the agreement to reflect the two remaining sectors (from previous five sectors) on which CLP will focus: agriculture (one year) and education (two years). It is anticipated that the modification will be completed by October 18, 2013.
2. RECOMMENDATION: Require Creative to update its project and performance management plans to reflect the changes in the modification.
  - RESPONSE: CLP's current project and performance management plan (PMP) was updated on July 22, 2013. When the current modification to CLP is complete, Creative

Associates International, Inc. will update the PMP, with the assistance of YMEP, within 30 days and submit to USAID/Yemen for concurrence, November 18, 2013.

3. **RECOMMENDATION:** Perform a documented review of its standard operating procedures with the Yemen Monitoring and Evaluation Project (YMEP), and if necessary, amend the procedures to improve the communication of key findings.
  - **RESPONSE:** USAID/Yemen, with YMEP, reviewed the standard operating procedures (SOP) for communication of key findings. Based on the review, YMEP modified the SOPs with a focus on disseminating key findings quickly and accurately. They also track the resolution of the key findings, as necessary.
4. **RECOMMENDATION:** Require Creative to implement a PMP that includes YMEP's role, authorities, and responsibilities as third-party monitor for the Community Livelihoods Project, as outlined in the missions' procedures.
  - **RESPONSE:** USAID/Yemen thought that this recommendation would be useful for all implementing partners and as such, asked YMEP to develop SOPs that clarified the role of YMEP with the implementing partners when developing and implementing their PMPs. The SOP has been completed and the standardized PMP format for USAID/Yemen is under review. USAID/Yemen utilized its Quarterly Partner Meeting, which was held October 3, 2013, to emphasize the role of YMEP as USAID's monitoring team. Specifically for CLP, YMEP will assist CLP with their PMP once the modification reflecting the changes in the scope of work is completed, by November 18, 2013.
5. **RECOMMENDATION:** Require Creative to update its PMP to include a control system to validate the delivery of goods.
  - **RESPONSE:** Since the audit, CLP has tightened internal controls to include the inspection and acceptance of goods and services procured upon delivery and/or installation. CLP's Purchase Orders include statements on warranty and service and repair, and have been updated to reflect a reasonable timeframe after delivery and/or completion of installation to inspect the services and goods, and to reject acceptance if they do not conform to the specification of the award. Further, recovery of the rejected item(s) shall be the sole responsibility of the supplier. An inspection and acceptance report (comprised of technical specifications, checklists, and written reports) is prepared by qualified CLP technical staff (e.g. medical professionals; construction engineers) to confirm items that meet the required standards, as well to reject those that are inadequate. Inspection and acceptance reports are submitted to CLP sector leads upon completion and are made available to USAID/YMEP. CLP's procurement policies and procedures have been updated to document this process.

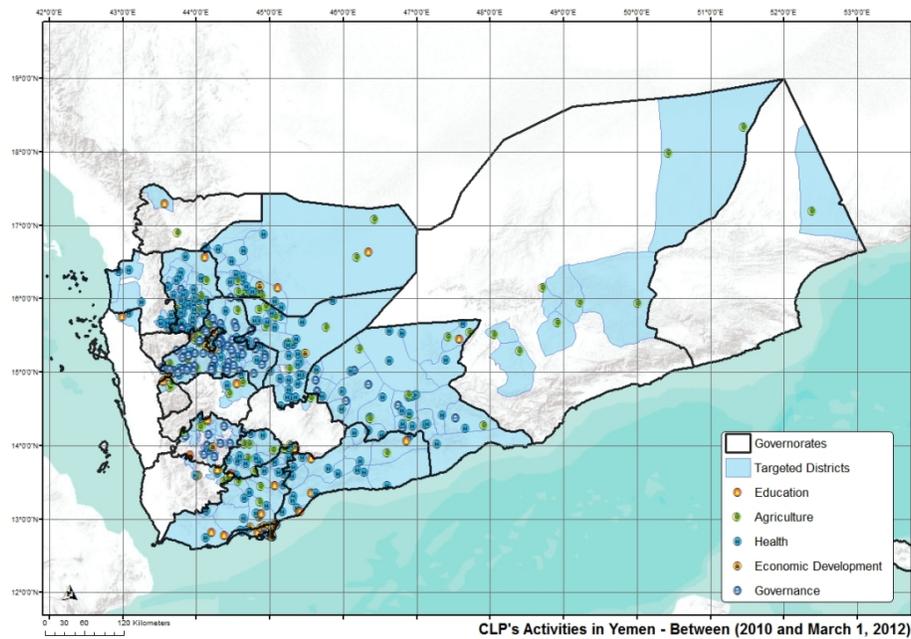
- In cases of rehabilitation, CLP engineers regularly monitor the work as it progresses and conducts an inspection upon completion. Status reports are sent to CLP team leaders who, in conjunction with engineers, determine corrective measures to be taken, if any. This includes establishing committees comprised of additional technical experts, as necessary. Corrective measures are presented to the vendor/supplier to ensure that implementation is conducted in accordance with required specifications. Final status/inspection and acceptance reports are shared with CLP's Procurement Unit who, in turn, contacts the vendors/suppliers should contractual documents, such as Purchase Orders, require modifications. The inspection and acceptance report (comprised of technical specifications, checklists, and written reports, as necessary) are maintained by the CLP Procurement Unit and becomes part of the vendor's/supplier's file. CLP Finance withholds final payment to contractors (e.g. building rehabilitation) until a second or final review/inspection of the deliverables is conducted.
6. RECOMMENDATION: Require Creative to update its PMP to clearly delineate its responsibility of monitoring project activities and reporting findings in an accurate, timely fashion.
- RESPONSE: Creative/CLP's Monitoring and Evaluation (M&E) Unit has rectified this by developing a more coherent data collection and storage system that provides more accurate data and continues to improve monitoring of field activities. This weakness was noted during the November 2012 DQA report for some indicators, especially training data. Procedures for data collection have been documented in the Performance Indicator Reference Sheets (PIRS). The CLP M&E Unit revised the monitoring instruments to ensure monitoring of project activities while providing corrective feedback to CLP's technical sectors. In addition, the M&E Unit developed a comprehensive data collection and storage system that accounts for the accuracy and timeliness of data assembly and report findings. The data collection and management system process will be included in the November 18, 2013 PMP and YMEP will monitor the development and progress of the PMP, PIRS and DQAs.
7. RECOMMENDATION: Require Creative to improve its data reporting by consolidating the data system, implementing a procedure manual to formalize data collection, and implementing a data validation system.
- RESPONSE: CLP has finalized a new data collection and management system, which reduces errors in reporting and ensures timely reporting. Since it is automated, output data is automatically generated from the supporting documents entered into the system, thus eliminating multiple data systems. The new system also makes verification easier as each data is directly linked to supporting documents. CLP has documented procedures for data collection in the PIRS. In addition, CLP has revised the M&E procedures manual,

which will correspond with the updated performance management plan in October 2013. The Data Collection, Management and Reporting manual was approved by USAID Mission and YMEP on September 28, 2013.

8. RECOMMENDATION: Deobligate funds associated with activities eliminated from the project.
  - RESPONSE: As of July 2013, Creative submitted a Program Element Financial update. The governance sector activities were zeroed out as of December 2012 and there are no remaining funds supporting this Element. CLP sector activities in Economic Development and Health will end in September 2013 and October 2013 respectively, using funds obligated to those Program Elements. If there are any funds left after completion of the health and economic development activities, USAID will work with CLP to deobligate these funds by December 31, 2013.
9. RECOMMENDATION: Conduct a written analysis to determine whether the project would benefit from creating a new funds control system. If so, it should implement the system to track funds for the remainder of the project.
  - RESPONSE: Since the payment method used is the Letter of Credit, the Mission does not approve payment vouchers. To overcome this issue, the Mission, working closely with the Agreement Officer, will modify the agreement requesting the contractor to include the correct funding upon submitting each invoice; contact and request from USAID/Washington's Letter of Credit Office to use the funding mentioned in the invoice; and at the end of the project the mission will coordinate with Cairo and Washington to reconcile the previous disbursements. We anticipate the modification to be completed by October 18, 2013.

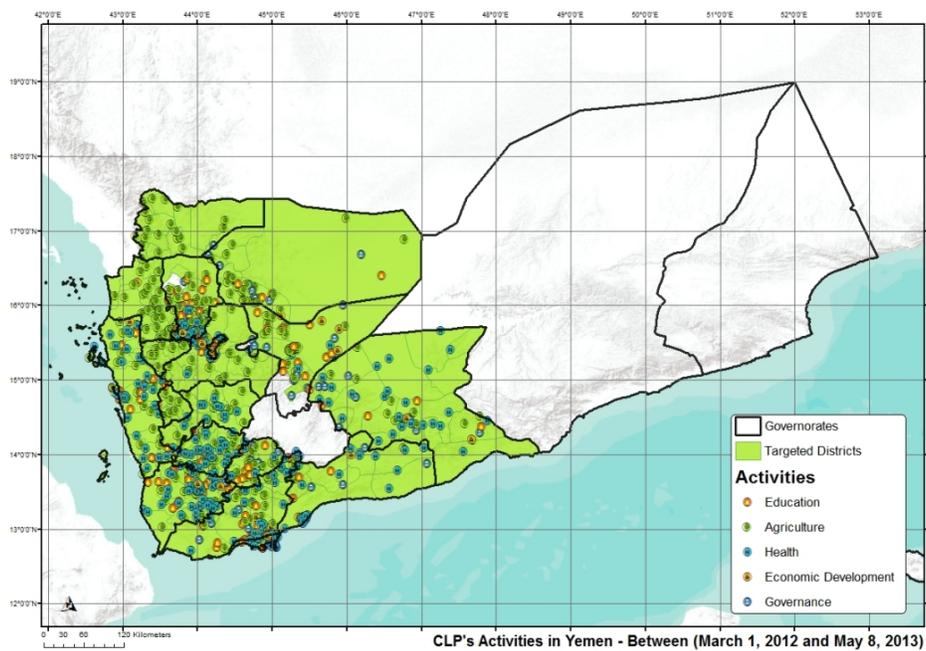
The Mission has reached a management decision on recommendations 1, 2, 4, 6 and 9 and recommendations 3, 5, 7 and 8 have been fully implemented.

**Figure 3. Map of Activities Implemented Before the Revolution (Unaudited)**



Source for both maps: Creative Associates International Inc.

**Figure 4. Map of Activities Implemented After the Revolution (Unaudited)**



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