



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/PAKISTAN'S SMALL GRANTS PROGRAM

AUDIT REPORT NO. G-391-13-005-P  
SEPTEMBER 17, 2013

ISLAMABAD, PAKISTAN



*Office of Inspector General*

September 17, 2013

**MEMORANDUM**

**TO:** USAID/Pakistan Mission Director, Gregory C. Gottlieb

**FROM:** Office of Inspector General/Pakistan Director, Matthew Rathgeber /s/

**SUBJECT:** Audit of USAID/Pakistan's Small Grants Program  
(Report No. G-391-13-005-P)

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

The final report contains three recommendations to help improve the Small Grants Program. The mission made management decisions on all of them. The Audit Performance and Compliance Division will determine final action when the mission completes planned corrective actions on the recommendations.

Thank you and your staff for the cooperation and courtesies extended to us during this audit.

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# SUMMARY OF RESULTS

USAID/Pakistan's Small Grants Program allows community-based and nongovernmental organizations throughout the country to set their own development agenda. The program encourages groups to submit concept papers for activities they believe would contribute to economic growth, education, health, democracy and governance, and other areas. The activities should have significant impact and be unique, innovative, compatible with the mission's overall objectives, and sustainable after funding ceases.

To help implement the program, in August 2010 the mission awarded the National Rural Support Programme, a local nongovernmental organization, a \$50 million, 5-year, cost-plus-fixed-fee contract.<sup>1</sup> The \$50 million contract provides \$25 million each to USAID/Pakistan's Small Grants Program and the Ambassador's Fund Program. This audit focused on USAID/Pakistan's Small Grants Program only. As of May 31, 2013, the mission had obligated approximately \$11.3 million and spent \$5.5 million for the Small Grants Program, which awards grants ranging from \$150,000 to \$250,000.

The Office of Inspector General conducted this audit to determine whether USAID/Pakistan's Small Grants Program was achieving its goal: to support the mission's development objectives that focus on development impact and sustainability.

USAID/Pakistan's Small Grants Program has had mixed results. Some grants were making a difference. For example, one grantee organization was using a unique and innovative approach to training teachers. It created training videos and downloaded these videos on the teachers' cell phones for them to view and apply the teaching techniques in the classroom. Another grantee was providing health-care coverage including x-rays and hospitalizations according to a health maintenance organization model, which is a new way of serving the marginalized community it operates in. However, three of nine grants tested—which had received \$331,783 as of March 31, 2013—did not achieve development impact or sustainability.

The audit disclosed two weaknesses in program implementation:

- The program did not achieve its target of awarding 20 grants per year and put a hold on new applications because of insufficient funding (page 3). The mission had shifted from collecting funding from all the technical offices to requiring a single office to fund the program. The other offices' lost ownership of the grants was reflected in shortcomings the audit disclosed, like the three grants not meeting expectations. Meanwhile, applicants are in limbo, and the mission continues to pay more than \$159,660 per month in fixed operating costs whether or not any new grants are processed.
- The mission did not follow its Mission Order 300.2 for approving small grants (page 5). Instead, the Democracy and Governance Office distributed condensed guidance that did not explain how to document the review and approval of concept papers and grant proposals,

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<sup>1</sup> Under Federal Acquisition Regulation 16.306, "a cost-plus-fixed-fee contracts is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract."

tell how much time this process should take, or define what makes a grant unique or innovative.

To improve the efficiency of this program, we recommend that USAID/Pakistan:

1. Implement a funding plan for the Small Grants Program that incorporates ownership by the technical offices (page 5).
2. Implement a plan for technical offices to monitor the Small Grants Program for development impact and sustainability (page 5).
3. Update Small Grants Program guidance to comply with Mission Order 300.2, detailing steps for the technical offices to review and approve small grant concept papers and full applications and prescribing time frames for completing each step (page 6).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Our evaluation of management comments is on page 7, and the full text of management comments appears in Appendix II.

# AUDIT FINDINGS

## Program Did Not Meet Target and Put a Hold on New Applications

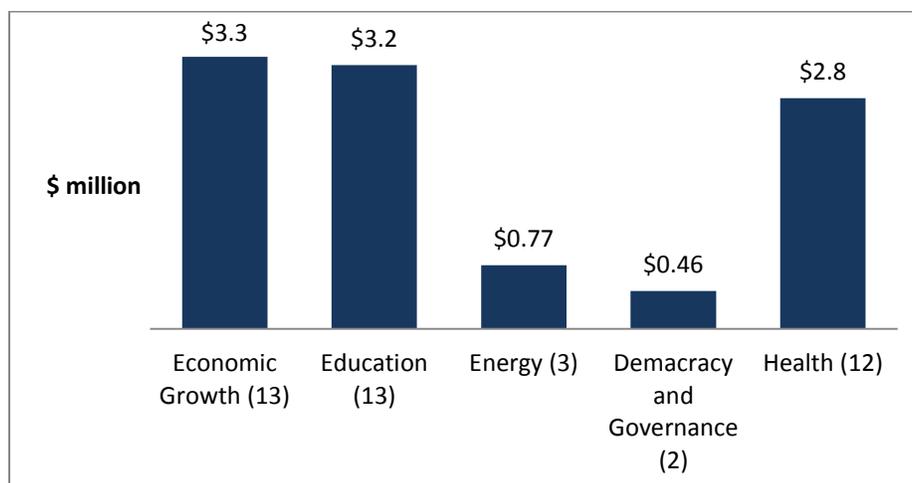
The Small Grants Program contract states that the mission will issue 20 small grants per year or 100 small grants over a period of 5 years. The small grants are to contribute to the mission’s overall objective, have a development impact, and be sustainable.

However, the program did not meet its third-year target for awarding grants and has stalled. As of May 2013, the mission had issued 43 grants, falling short by 17 the number of grants intended to provide assistance to Pakistani community-based organizations. In February 2013, the program was making progress toward achieving its third-year target, having approved 38 additional concept papers and asked prospective grantees to submit full applications. Then in March 2013, the mission notified the contractor, National Rural Support Programme, to suspend new grant applications and not accept any concept papers. Therefore, the program did not meet its third-year target.

Changes in management and in mission priorities reduced the program’s budget, prompting the suspension. During the first 3 months of implementation, the mission’s program office managed the program, and technical offices—health, education, etc.—funded those small grants that fell under their purview. However, because the program office was unable to manage the hundreds of proposals, the mission delegated responsibility to the Office of Democracy and Governance; its workload was comparatively light because governance programs were not a high priority at the time. Making it responsible for managing and funding the program meant that the technical offices were no longer funding their respective grants, and they soon stopped monitoring activities for development impact and sustainability.

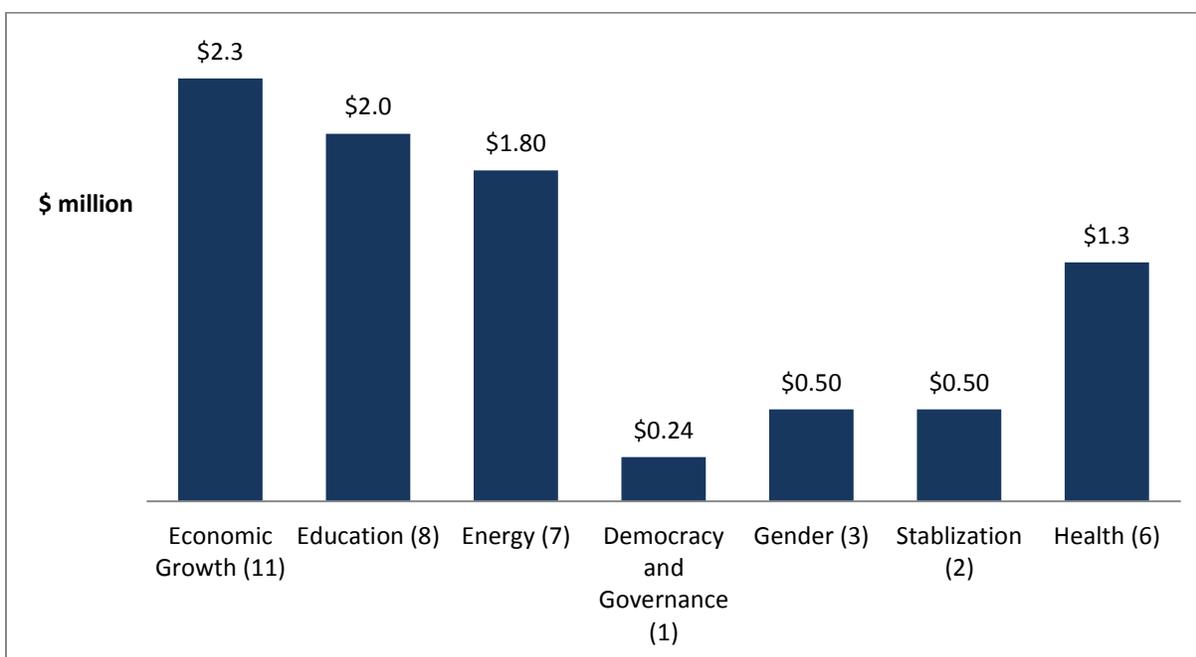
When a shift in management revived mission interest in governance, the Office of Democracy and Governance cut funding for small grants. It had little interest in managing and funding them since only 2 of the 43 grants were directly related to democracy and governance (Figure 1).

**Figure 1. Approved Grants as of May 2013 by Technical Office (Audited)**



Further, the mission reported that only 1 of the 38 pending grant applications was related to democracy and governance (Figure 2).

**Figure 2. Pending Grants as of May 2013 by Technical Office (Unaudited)**



Because of a lack of ownership by the technical offices, three of nine grants tested did not achieve development impact or sustainability. As of March 31, 2013, the mission had disbursed a total of \$331,783 for these three grants. Although the grant applications had sustainability components, the three grants will not be sustainable once the activities end.

- For one grantee, the main goal was to analyze and translate all available data on immunization and maternal health into easy-to-understand policy briefs for government decision makers, politicians, and print media. The briefs would be used to improve the performance and outcomes of maternal and child health and family planning programs in Pakistan. However, the grantee was unable to determine if government decision makers were using the data and policy briefs. The mission's Office of Health did not use the policy briefs because it lacked confidence in the grantee's methodologies and work products. Initially the mission was not in favor of approving this grant; however, mission officials said they were under pressure to do so. The Ambassador assigned as the Special Representative for Afghanistan and Pakistan at the U.S. Embassy sent an e-mail to the contracting officer's representative instructing the latter to move this grantee's application forward quickly.
- For the second grantee, the main objective was to provide training to enhance the housekeeping skills of 1,000 women from underprivileged backgrounds. After the women completed the training, this activity aimed to find jobs for them to improve their standard of living and empower them economically. However, the grantee did not provide employment to a majority of the women trained. In addition, the grantee planned to fund the training program in the future by charging prospective employers 1,000 rupees; however, 1,000 rupees per trainee was not enough to cover the costs of the training program.

- The contractor terminated the third grantee’s award after a year because the grantee was not implementing activities in accordance with the objectives. The grantee was supposed to teach 21,000 female family members of the children in school run by the grantee to read. Instead, the grantee taught other pupils: 80 percent of those enrolled were not family members of the schoolchildren. The mission spent \$68,000 on the award before it was terminated.

Meanwhile, the contractor bills the mission about \$150,000 a month whether or not new grants are awarded, and the mission incurs costs of about \$9,660 a month for the salaries of the staff managing the program—the contracting officer’s representative and the small grants administrator. Without continued funding, the program will not be able to foster unique, innovative activities that contribute to USAID/Pakistan’s overall strategic objectives. Moreover, the suspension of awards reflected poorly on the mission’s reputation among small grantees. To allow the small grants program to continue, we make the following recommendations.

***Recommendation 1.*** *We recommend that USAID/Pakistan implement a funding plan for the Small Grants Program that incorporates ownership from the technical offices.*

***Recommendation 2.*** *We recommend that USAID/Pakistan implement a plan for technical offices to monitor the Small Grants Program for development impact and sustainability.*

## **Mission Did Not Follow Its Guidance for Approving Small Grants**

Mission Order 300.2, “Procedures for Review and Award of Unsolicited Proposals,” states that the concept paper should be unique and innovative and must support USAID/Pakistan’s strategic goals. Technical evaluation committees determine if the concept paper meets criteria such as uniqueness, innovativeness, development impact, and sustainability. Technical evaluation committees consist of individuals from the technical office they represent and from the program office. The technical offices are then responsible for carrying out and documenting the various steps to evaluate concept papers and grant proposals within certain time frames and for maintaining all correspondence and documentation pertaining to all applications.

The Office of Democracy and Governance provided technical offices with condensed guidance for processing small grants applications, outlining the flow of concept papers and full applications. The guidance states that the small grants administrator receives concept papers from the contractor. The small grants administrator distributes the proposals to the appropriate technical office in Islamabad and to applicable provincial offices for their review and approval. Provincial offices and Islamabad technical offices review the concept papers simultaneously. If a technical office approves the concept paper, the applicant is notified to develop a full application, including a detailed budget. Upon receiving a full application, the small grants administrator again routes it to the technical office that initially approved the concept paper. If the concept paper is not approved, no further action is needed, and USAID tells applicants why the concept paper was rejected.

However, the Office of Democracy and Governance guidance for processing concept papers and full applications did not contain all the requirements of the mission order. The guidance did not provide detail on technical offices’ roles and responsibilities. It did not provide detailed written procedures on how to approve or decline a grant application, document both the final

determination and the characteristics that made a grant unique or innovative, or the time frame to complete the various stages of the approval process. The guidance was an informal “thumbs up” or “thumbs down” approach provided to the technical offices for approving concept papers and full applications.

The incomplete guidance led to inconsistencies among the technical offices in reviewing and approving grants for uniqueness, innovativeness, and sustainability. Whereas the Office of Health assigned a staff member to determine whether the idea presented in the concept paper met all requirements, the Office of Education involved various staff, including provincial personnel, in reviewing and approving concept papers and full applications. Neither office maintained documentation on final determinations, including whether the concept papers were unique and innovative.

Because of this lack of documentation, the following occurred:

- Current staff in the technical offices did not know why four of the nine grants tested were approved.
- The Office of Education staff were not familiar with the education grants covered by this audit.
- USAID approved a grantee to perform cataract surgeries for approximately 11,400 women. The selected grantee has been providing eye care, including cataract surgery, since 1985; the grantee could not demonstrate how the grant was unique or innovative.

By relying on condensed guidance instead of the mission order, mission officials bypassed establishing technical evaluation committees and other important steps. Officials did not follow the mission order for approving small grants because they wanted to streamline the review and approval process to issue the grants faster. Consequently, they approved some grants that did not achieve program objectives.

To improve the mission’s review and approval process related to the small grants process, we make the following recommendation.

***Recommendation 3.*** *We recommend that USAID/Pakistan update its Small Grants Program guidance to comply with Mission Order 300.2, detailing steps for the technical offices to review and approve small grant concept papers and full applications and prescribing time frames for completing each step.*

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with the three recommendations in the draft report.

**Recommendation 1.** USAID/Pakistan agreed to implement a funding plan for the Small Grants Program that incorporates ownership by the technical offices. The mission intends to change the structure of the Small Grants Program to a solicited, demand-driven model led by participating technical offices. By November 30, 2013, the mission will complete an action memo outlining the new structure, to include a funding plan that incorporates ownership by the technical offices. Accordingly, the mission has reached a management decision.

**Recommendation 2.** USAID/Pakistan agreed to implement a plan for technical offices to monitor the Small Grants Program for development impact and sustainability. The new structure will charge technical offices with monitoring. The mission expects to complete an outline of the new Small Grants Program structure by November 30, 2013. Accordingly, the mission has reached a management decision.

**Recommendation 3.** The mission agreed to update processes for reviewing and awarding small grants. However, having decided to adopt a demand-driven model for the program, the mission will not update guidance to comply with Mission Order 300.2, which covers the review of unsolicited proposals. Along with changing the program's structure, USAID/Pakistan intends to amend the contract to move from "innovation and uniqueness" to activities that fit with the mission's strategic framework: stabilization, education, health, economic growth, democracy and governance. The mission plans to amend the contract by November 30, 2013. Accordingly, the mission has reached a management decision.

The Audit Performance and Compliance Division will determine final action on completion of the planned corrective actions for Recommendations 1, 2, and 3. The mission's written comments on the draft report are included in their entirety, without attachments, as Appendix II of this report.

# SCOPE AND METHODOLOGY

## Scope

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

The purpose of this audit was to determine whether USAID/Pakistan's Small Grants Program achieved its goal to support the mission's development objectives that focus on development impact and address sustainability. As of May 31, 2013, the mission had obligated approximately \$11.3 million and spent \$5.5 million on the Small Grants Program. The audit team reviewed performance information for August 2010 through June 2013 and evaluated the major activities implemented under the contract.

In planning and performing the audit, the audit team reviewed the control environment at the mission. We examined the mission's fiscal year 2012 self-assessment of management controls, required by the Federal Managers' Financial Integrity Act of 1982 (as codified in 31 U.S.C. 3512), to check whether the assessment cited any relevant weaknesses. We also reviewed USAID policies and procedures pertaining to USAID/Pakistan's Small Grants Program, including Automated Directives System Chapters 200 and 303.

The audit team assessed the significant internal controls used by the mission to manage the activities. These controls included maintaining regular contact with the implementer, reviewing and approving key decisions, performing site visits, and assessing reported results. The audit team also reviewed the implementer's control environment, including a review of the grant-making process, quality control, accounting functions, and the reporting of results.

The audit team performed fieldwork at the USAID/Pakistan mission in Islamabad, its provincial offices in Karachi and Lahore, and the contractor's main office in Islamabad. The team met with eight of the nine grantees selected in Punjab, Sindh, and Islamabad from March 8 through June 13, 2013.

## Methodology

To answer the audit objective, we reviewed mission documents used to manage and monitor the activities. These documents included the activity approval document, performance management plans, the contract, reported results, financial reports, e-mail correspondence, and site visit reports. We also interviewed mission officials; staff at the contractor's office; and stakeholders including local grantees, community members, and beneficiaries. We also compared plan targets with reported results.

To see whether activities funded by grants achieved development impact or sustainability, the audit team first determined whether they met the performance indicator targets in the contract and measured the effectiveness of the activities. The contract included targets for the number of

grants to be awarded each year. The audit team judgmentally sampled nine grants implemented under the contract, totaling about \$1 million.

The audit evaluated whether performance indicators were sufficient to permit their use in answering the audit objective. Through discussions with USAID/Pakistan officials and the contractor, the auditors gained an understanding of how the (1) indicators were defined, (2) data sources were used, and (3) data flowed from the project sites to the mission for inclusion in monthly reports.

In assessing the status of the activities carried out during the first 3 years of the contract, the auditors relied primarily on the contractor's quarterly and annual progress reports from September 2010 through May 2013, supplemented by interviews conducted with USAID/Pakistan officials, contractors, grantees, and beneficiaries about achievements and problems reflected in these reports.

To validate data for the activities, the auditors checked reported results against supporting documentation maintained by the contractor. The audit team also visited eight sites to monitor progress; speak with grantees, beneficiaries, and community stakeholders; and verify reported results.



# USAID | PAKISTAN

FROM THE AMERICAN PEOPLE

## MEMORANDUM

<b>Date</b>	<b>September 03, 2013</b>
<b>To</b>	<b>Matthew Rathgeber – Director/OIG Pakistan</b>
<b>From</b>	<b>Gregory Gottlieb – Mission Director USAID/Pakistan /s/</b>
<b>Subject</b>	<b>Audit of USAID/Pakistan’s Small Grants Program</b>
<b>Reference</b>	<b>Mission Response to Performance Audit Report No. G-391-13-005-P dated July 31, 2013</b>

The USAID/Pakistan Mission would like to thank the OIG for providing the Mission the opportunity to review the draft performance audit report of the Small Grants Program and for their professionalism and transparency in the process. The Mission management appreciates efforts of the OIG in explaining the audit process and maintaining a collegial atmosphere. Please find below our management comments on the recommendations included in the referenced audit report.

**Recommendation No. 1** We recommend that USAID/Pakistan implement a funding plan for the Small Grants Program that incorporates ownership from the technical offices.

**Management Comments:** Mission management agrees with this recommendation. We would like to further emphasize that increasing technical office ownership of Small Grants projects is crucial to the impact and sustainability of both individual projects and the Program overall. Accordingly, we intend to change the structure of the Small Grants Program to a solicited, demand-driven model led by participating technical offices. Offices that elect to use the Small Grants Program will provide funding and management for projects in their sector. While the Program itself will offer support to participating technical offices, there will be no other funds available for grants that do not come from a technical office. There will be limited DG core funding dedicated to Program management and DG grants. This new structure will dramatically increase technical office ownership of Small Grants activities and results. We expect the new Small Grants Program to be a much smaller program, more closely aligned with each sector’s results framework. We expect to complete an Action Memo outlining a new Small Grants Program structure, to include a funding plan, by November 30, 2013.

**Recommendation No. 2** We recommend that USAID/Pakistan implement a plan for technical offices to monitor the Small Grants Program for development impact and sustainability.

**Management Comments:** Mission management agrees with this recommendation. Under the intended new structure of the Small Grants Program, technical offices will participate in the management of projects in their sectors. Tracking progress towards results would be a key responsibility of these offices, giving them a direct line of responsibility for monitoring development outcome and sustainability. We expect to complete an outline of the new Small Grants Program structure, detailing these responsibilities, by November 30, 2013.

In addition to increasing technical office monitoring of Small Grants projects, increasing site visits and monitoring of all small grant awards is one of our top priorities. The Democracy and Governance Office is in the process of developing an action plan to increase and better track site/monitoring visits of all projects. This plan is expected to be completed by November 30, 2013.

**Recommendation No. 3** We recommend that USAID/Pakistan update its Small Grants Program guidance to comply with Mission Order 300.2, detailing steps for the technical offices to review and approve small grants concept papers and full applications and prescribing time frames for completing each step.

**Management Comments:** The Mission is in agreement that the processes for the review and award of Small Grants require updating. While the contract's Statement of Work prescribes a 'close following' of Mission Order 300.2, we do not believe that the intent was to mimic the Mission Order specifically and restrictively. The Mission has, accordingly, reassessed the current environment in which the program is executed versus that when the award was made. The Mission has moved forward from the intensity of responding to the Kerry-Luger-Bergman Act when Mission staffing was less than required and has determined that the Small Grants Program should reflect this transition. Mission programs now respond to a Mission Strategic Framework, which provides a formal structure for defining and prioritizing development needs. Accordingly, the Small Grants Program will be amended to move from 'innovation and uniqueness' to what is 'needed' in the current Framework, e.g. activities in support of stabilization, education, health, economic growth, democracy and governance, achieved through targeted, 'solicited' applications rather than 'unsolicited'. The contract's language will be modified accordingly, with a proposed completion date of November 30, 2013.

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