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OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/MONGOLIA'S
ECONOMIC POLICY REFORM
AND COMPETITIVENESS
PROJECT**

AUDIT REPORT NO. 5-438-08-011-P
SEPTEMBER 26, 2008

MANILA, PHILIPPINES



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

September 26, 2008

MEMORANDUM

TO: USAID/Mongolia Country Representative, Barry K. Primm

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

SUBJECT: Audit of USAID/Mongolia's Economic Policy Reform and Competitiveness Project (Report No. 5-438-08-011-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in appendix II.

This report contains two recommendations intended to improve the Economic Policy Reform and Competitiveness Project's performance management plan and strengthen the data quality of its performance indicators and reported results. Based on your comments and the documentation provided, we determined that final actions have been taken on both recommendations.

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

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SUMMARY OF RESULTS

Rapid political changes in the early 1990s, particularly the dissolution of the Soviet Union in 1991 and the termination of all Soviet assistance to Mongolia shortly thereafter, set the stage for Mongolia's efforts to develop a market economy. Since 1995, USAID/Mongolia has launched a number of programs to assist the Government of Mongolia in the design and implementation of economic policy and to strengthen the policymaking capacities of government officials (see page 2).

In September 2003, USAID/Mongolia awarded a 5-year \$17 million contract to Chemonics International, Inc. (Chemonics) to implement the Economic Policy Reform and Competitiveness Project (Economic Project). The contract was subsequently increased to \$19 million. The Economic Project's main objectives were to (1) accelerate and deepen the policy reform process in Mongolia, (2) promote increased competitiveness in the Mongolian economy, and (3) enable and support competitive participation of Mongolia in the global economy (see page 2).

The Office of Inspector General conducted this audit as part of its fiscal year 2008 audit plan to determine whether USAID/Mongolia's Economic Project achieved its planned results and what its impact has been (see page 3).

The audit concluded that USAID/Mongolia's Economic Project achieved or made progress toward achieving its planned results and made an impact. For example, the Economic Project helped propose, pass, and implement four competitiveness-based tax law reforms. The tax law reforms represent important steps in moving Mongolia's tax system closer to international best practice standards. The Economic Project also enhanced Mongolia's energy regulatory framework to help promote a competitive and efficient delivery of energy services to consumers and make an attractive environment for foreign and domestic private investment. Furthermore, the Economic Project promoted government transparency and enhanced the quality of public dialog by providing user-friendly, easy-to-understand, and specific information to educate Mongolians on issues of public concern (see page 4).

Although the Economic Project did not fully achieve some of its planned results, it was making progress toward completion. The Economic Project had no direct control over the timing and/or achievement of some results, such as passage of specific laws, adoption of certain regulations, and the changing political environment in Mongolia, which delayed implementation of certain components, such as energy (see page 5).

The audit identified areas where the mission could improve the Economic Project's performance management plan (see page 6) and strengthen the data quality of its performance indicators and reported results (see page 9). This report made two recommendations to address these issues (see pages 9 and 10).

Based on the Office of Inspector General's review of USAID/Mongolia's comments, detailed actions, and supporting documents received, the audit determined that final actions have been taken on both recommendations (see page 11).

BACKGROUND

Mongolia is a landlocked country in East-Central Asia of just over 603,000 square miles, about the size of Alaska. The country borders Russia to the north and China to the south. With approximately 3 million people, Mongolia has one of the lowest population densities in the world. Ulaanbaatar, the capital and largest city, is home to about 38 percent of the country's population.

Rapid political changes in the early 1990s, particularly the dissolution of the Soviet Union in 1991 and the termination of all Soviet assistance to Mongolia shortly thereafter, set the stage for Mongolia's efforts to develop a market economy. By the mid-1990s, Mongolia appeared to have endured the most difficult aspects of the transition. Improved macroeconomic management was having a positive impact, especially in terms of exchange rate stabilization and decreases in inflation. Politically, Mongolia achieved a successful transition toward a parliamentary democracy.

In the early 2000s, this political stability helped Mongolia with its macroeconomic management. However, like many former communist countries in transition, the country struggled with improving performance across a range of areas necessary to increase economic growth. Among these areas were anticorruption, tax reform, macroeconomic policy, small-business development, commercial law, law enforcement, competition and trade policy, enterprise privatization and restructuring, banking reform, and land use administration.

Since 1995, USAID/Mongolia has launched a number of programs to assist the Government of Mongolia in the design and implementation of economic policy and to strengthen the policymaking capacities of government officials. In September 2003, USAID/Mongolia awarded a 5-year \$17 million contract to Chemonics International, Inc. (Chemonics) to implement the Economic Policy Reform and Competitiveness Project (Economic Project). The contract was subsequently increased to \$19 million. The Economic Project's main objectives were to (1) accelerate and deepen the policy reform process in Mongolia, (2) promote increased competitiveness in the Mongolian economy, and (3) enable and support competitive participation of Mongolia in the global economy.

To accomplish the above objectives, the Economic Project was designed to focus on four main components:

- 1. Economic and trade policy.** Continuation of the development and implementation of sound, market-oriented macroeconomic, microeconomic, trade and investment, and sectoral policies that promote sustainable and equitable economic growth.
- 2. Energy.** Development of a transparent, market-oriented regulatory environment that promotes competitive and efficient delivery of energy services to consumers and an attractive environment for foreign and domestic private investment.
- 3. Business competitiveness.** Development of private sector businesses and clusters that focuses on supplying demand of target export and domestic market niches capable of turning and maintaining comparative advantages into competitive

edges. Priority niches include cashmere, tourism, hides, skins, leather, meat, and textiles.

4. National Dialog. Development of public education and national discourse to improve government transparency and corporate governance that builds consensus among national decision makers, businesses, local government and community leaders, academic institutions, and civil society representatives by linking policy reform and private sector-led economic growth.

As of December 31, 2007, USAID/Mongolia obligated about \$19 million and disbursed \$17 million for the Economic Project's activities. The Economic Project was to end in September 2008, but USAID/Mongolia exercised its option to extend the contract with Chemonics for another 3 years (October 2008 to October 2011).



Office of Inspector General photograph of the Tourist Information Center supported by the Economic Project in Ulaanbaatar, Mongolia (June 2008).

AUDIT OBJECTIVE

The Office of Inspector General conducted this audit as part of its fiscal year 2008 audit plan to answer the following question:

Has USAID/Mongolia's Economic Policy Reform and Competitiveness Project achieved planned results and what has been the impact?

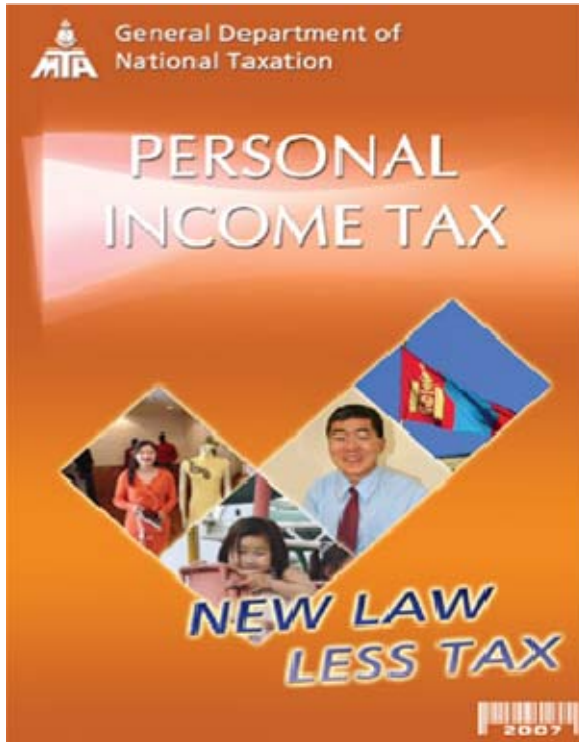
Appendix I contains a discussion of the audit scope and methodology.

AUDIT FINDINGS

USAID/Mongolia’s Economic Policy Reform and Competitiveness project (Economic Project) achieved or made progress toward achieving its planned results. In addition, the Economic Project accelerated the policy reform process in Mongolia, promoted competitiveness in the Mongolian economy, and enabled and supported competitive participation of Mongolia in the global economy. Table 1 presents the Economic Project’s significant representative achievements and impact in each of its four project components as of December 31, 2007.

Table 1: Economic Project’s Significant Achievements and Impact

Significant Achievements	Impact
<i>Component #1: Economic and Trade Policy</i>	
<p>New tax laws: Helped propose, pass, and implement four competitiveness-based tax law reforms: (1) personal income tax, (2) corporate income tax, (3) value added tax, and (4) excise tax. These laws became effective on January 1, 2007.</p>	<p>The tax law reforms represent important steps in moving Mongolia’s tax system closer to international best practice standards. In general, the new laws reduced tax rates, flattened the tax schedule, removed discriminatory loopholes and exemptions, and introduced appropriate deduction opportunities for corporate investment.</p>
<i>Component #2: Energy</i>	
<p>Enhanced energy regulatory framework: Provided technical support to the newly established Mongolian Energy Regulatory Authority, which included developing and implementing a Uniform Chart of Accounts compliant with International Financial Reporting Standards; establishing an Audit Department; helping with public hearing procedures, licensee performance agreements, and tariff development; and improving consistency of agencies’ practices and regulations.</p>	<p>The enhanced energy regulatory framework helped Mongolia’s efforts to develop and implement a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services to consumers, commercial practices in energy generation and distribution, and an attractive environment for foreign and domestic private investment.</p>
<i>Component #3: Business Competitiveness</i>	
<p>Developed secondary mortgage market: Assisted 10 private sector banks and the Bank of Mongolia with creation of the Mongolian Mortgage Corporation (MIK) and helped MIK with its first purchase of mortgages.</p>	<p>MIK was Mongolia’s first private sector-managed secondary mortgage institution, created to ensure the smooth functioning of a long-term financing system and to promote affordable home ownership and urban development.</p>
<i>Component #4: National Dialogue</i>	
<p>Created national multimedia Open Talks: Designed and implemented an “Open Talks” program of national television and radio, Internet chat server, open telephone lines, and mobile phone text messages where citizens dialog with government and private sector decision makers on issues such as economic policies, taxes, housing finance, railroad transportation, and logistics.</p>	<p>The national Open Talks promoted government transparency and enhanced the quality of public dialog by providing user-friendly, easy-to-understand, and specific information to educate Mongolians on issues of public concern.</p>



Front cover of a brochure that provides information about the new Personal Income Tax Law of Mongolia that went into effect on January 1, 2007. The Economic Project helped propose, pass, and implement this law, and also assisted with preparing this brochure (General Department of National Taxation, Ministry of Finance).

Although the Economic Project did not fully achieve some of its planned results, it was making progress toward its goals. The lag in achievement occurred mostly because the Economic Project had no direct control over the timing and/or achievement of certain planned results, such as passage of specific laws, adoption of certain regulations, and changes in the political environment in Mongolia, which delayed implementation of certain components, such as energy. The Economic Project expects to complete the planned results that were under its direct control by June 2008 or in the new 3-year contract extension period.

However, upon the audit's examination of the Economic Project's performance results framework, USAID/Mongolia and Chemonics set ambitious outcome-based standards of achievement for the Economic Project's planned results. Indeed, this approach moved the project forward in a political environment that was sometimes very difficult to work in, but at the same time it held the Economic Project to certain goals that were outside its immediate control. This ambitious approach particularly occurred in the area of passing specific laws and adoption of certain regulations, an area that was ultimately only within the control of the Government of Mongolia. Passage of these laws and regulations could be and was assisted—in many cases greatly assisted—by the Economic Project but ultimate passage was outside the control of the project, USAID Mongolia, or the larger U.S. government mission in Mongolia.

Although USAID/Mongolia's Economic Project achieved a number of its planned results and made an impact, the following sections discuss areas where the mission could improve the Economic Project's performance management plan and strengthen data quality of its performance indicators and reported results for the new 3-year contract extension period.

The Economic Project's Performance Management Plan Needs Improvement

Summary: USAID guidance states that a performance management plan is a critical tool for planning, managing, and documenting data collection; it contributes to the effectiveness of the performance monitoring system by ensuring that comparable data will be collected on a regular and timely basis. However, the Economic Project's performance management plan fell short in several ways with its performance indicators and targets. This occurred primarily because USAID/Mongolia and the Economic Project used other performance monitoring and reporting tools, while the performance management plan was neglected and became less useful and relevant. As a result, the Economic Project's performance management plan was outdated and was not effective for observing progress and measuring actual results compared to expected results.

USAID/Mongolia's contract with Chemonics required that a performance management plan¹ be developed to measure the Economic Project's progress throughout the life of the project. According to USAID's Automated Directives System (ADS) 203.3.4, performance indicators must be included in performance management plans to observe progress and to measure actual results compared to expected results. ADS 203.3.4.1a states that selected performance indicators for the performance management plan should be the most appropriate for the result being measured. Further, ADS 203.3.4.5 states that for each indicator in a performance management plan, performance targets should be set optimistically but realistically to achieve them within the stated timeframe and with the available resources.

However, the Economic Project's performance management plan indicators and targets fell short in several ways. Specifically, 14 of the 39 performance indicators that the Economic Project reported to USAID could not be used because (1) they were outside the manageable interest of the project and not a good measure of performance, (2) they did not have targets or expected results, (3) they had been completed previously, or (4) their related activities were dropped. The audit could measure and test only 25 of the 39 performance indicators as of December 31, 2007.

Additionally, several key indicators were not precisely defined. For example, indicators related to laws and regulations did not clearly measure how many were to be proposed, considered, passed, and implemented, and they did not properly aggregate detailed targets and actual results. ADS 203.3.4.2 states that indicators should be precisely defined in the performance management plan.

As another example of an imprecise indicator, the indicator that measured "gross tourist receipts" was misleading because it actually measured airport departure tax. Although

¹ The original contract referred to a performance monitoring plan. According to USAID's Automated Directives System 200.6, the term "performance management plan" superseded "performance monitoring plan" in 2002. For purposes of this audit report, the Office of Inspector General will use the term performance management plan.

ADS 203.3.4.2 states that good performance indicators can include such proxies,² the use of proxies and the assumptions supporting their selection should be clearly defined and documented in the performance management plan and confirmed on a regular basis.

The Economic Project also performed a number of activities that were not captured or measured in any of the performance indicators, such as assisting the General Department of National Taxation with developing training materials, providing training to tax inspectors and tax supervisors, and drafting selected model regulations and public hearing procedures. ADS 203.3.4.1 states that operating units should select performance indicators that are the most appropriate for the result being measured, and ADS 203.3.4.2 states that operating units should have as many indicators in their performance management plan as are necessary and cost-effective for management and reporting purposes.

The shortcomings in the performance management plan occurred for several reasons:

- Performance management plan not submitted to USAID for formal approval. In November 2006, USAID/Mongolia worked with the Economic Project to bring the project performance indicators more in line with the mission's performance management plan. This change resulted in 39 new project performance indicators under 16 different key result areas. The Economic Project incorporated the new indicators into its performance management plan but did not submit the changes to the mission for formal approval. The mission reviewed the indicators at its November 2006 annual portfolio review but did not formally approve them until October 2007—long after they were submitted to USAID as an integral part of the Economic Project's 2007 annual work plan, and about 10 months after the project year started. According to the mission's records, this was the first opportunity to formally approve the new performance indicators, which were established a year before.
- Lack of cognizant technical officer continuity. From September 2003 until June 2008, USAID/Mongolia's cognizant technical officer for the Economic Project changed five times (three different cognizant technical officers). As a consequence, there was a lack of staff continuity and continuous attention to the Economic Project's performance management plan and performance reporting. The mission explained that the principal cognizant technical officer for the Economic Project was the senior program manager and that four of the five staff turnovers resulted from his two temporary duty assignments in Afghanistan. Although the mission conducted annual portfolio reviews in 2006 and 2007, which included the Economic Project, mission officials stated that the lack of continuity in cognizant technical officers prevented the mission from addressing all of the problems with the indicators.
- No full-time monitoring and evaluation specialist at the Economic Project. The Economic Project's chief of party explained that the nature, type, and number of indicators on which the Economic Project reported did not justify a full-time monitoring and evaluation specialist. Rather, an assistant analyst compiled the

² A proxy indicator is an indirect measure of a result that is related by one or more assumptions used to measure the result.

performance data from the lead advisors of the four components and performed some data quality checks before sending the quarterly reports to USAID, but generally no supervisory reviews were done to check the data reported in each of the indicators.

- No data quality assessments performed. Although the mission planned to conduct formal data quality assessments of the Economic Project's performance indicators in December 2004 and January 2007, it did not do so. This lack of assessments is discussed further in the next finding area starting on page 9.

As a result of these issues, the Economic Project's performance management plan was outdated and was not effective for observing progress and measuring actual results compared to expected results.

Both the cognizant technical officer and chief of party for the Economic Project explained that the performance management plan process and performance indicators were somehow overshadowed by other performance monitoring and reporting tools, such as the annual work plan, regular coordination meetings between the mission and the Economic Project (weekly at first, later becoming biweekly), monthly contractor meetings with the U.S. Embassy/Ulaanbaatar chaired by the Ambassador, quarterly performance reports submitted to USAID, monthly invoice examinations, and daily phone conversations and e-mails. Because of the close coordination and working relationship between the mission and the Economic Project, the performance management plan became less useful and relevant as a monitoring tool; thus it was to a certain extent neglected and not updated.

However, USAID's TIPS Number 7, Preparing a Performance Management Plan, states that a performance management plan is a critical tool for planning, managing, and documenting data collection. It contributes to the effectiveness of the performance monitoring system by assuring that comparable data will be collected on a regular and timely basis. These data are essential to the operation of a credible and useful performance-based management approach.

Additionally, USAID/Mongolia's contract with Chemonics required that the Economic Project's performance management plan be updated annually together with the annual work plan. ADS 203.3.4.6 also states that a performance management plan should be updated annually. Periodic updates ensure the usefulness and relevance of a performance management plan. An outdated performance management plan provides little assistance in the timely and consistent collection of performance data.

USAID/Mongolia officials and the Economic Project's chief of party recognized the weaknesses with the performance management plan and took swift actions to improve it during the audit. A monitoring and evaluation specialist from Chemonics' headquarters in Washington, DC, came to Mongolia on temporary duty to analyze the performance management plan and its 39 performance indicators, perform a data quality assessment of the data used to support selected key indicators, determine what activities and results were not being captured by the indicators, produce an updated version of the Economic Project's performance indicators and results as of December 31, 2007, and realign the Economic Project's results framework with the new Foreign Assistance Standardized Program Structure. In addition, they explained that both the mission and the Economic

Project would institute a formal review of the Economic Project's performance indicators in June of each year during the 3-year contract extension.

In discussing the lack of continuity with the Economic Project's cognizant technical officer, USAID/Mongolia explained that the current cognizant technical officer, who is also the mission's senior program manager, signed a new U.S. Personal Services Contract for another 4 years effective on May 15, 2008. This should provide the needed continuity and continuous attention to the Economic Project's performance management plan and performance reporting through the 3-year extension of the contract (October 2008 to October 2011).

Regarding the lack of a full-time monitoring and evaluation specialist at the Economic Project, the chief of party elevated the assistant analyst position to include monitoring and evaluation specialist duties such as organizing data collection, analyzing data, verifying data quality, providing overall quality control of project monitoring and evaluation data, and establishing new performance management plan procedures to simplify and centralize the process.

Because USAID/Mongolia and the Economic Project took immediate corrective actions during the audit, this audit does not have any recommendations in those areas. However, because the Economic Project's performance management plan was outdated, this audit makes the following recommendation to help improve the Economic Project's performance management plan in the new contract extension period:

Recommendation No. 1: We recommend that USAID/Mongolia issue a Technical Directive to Chemonics that requires the Economic Policy Reform and Competitiveness project to annually update its performance management plan to ensure the usefulness and relevance of the performance indicators and targets, and submit it to USAID/Mongolia for review and approval.

Mission Needs to Conduct Data Quality Assessment of Economic Project's Performance Indicators

Summary: USAID policy requires operating units to conduct a data quality assessment at least every 3 years for all performance data formally submitted in the unit's annual report. In December 2004 and January 2007, USAID/Mongolia planned to conduct formal data quality assessments of the Economic Project's performance indicators and its reported results. However, the assessments were not done because they were a lesser priority in the confines of a small mission with limited staff resources. Without such assessments, the quality of data being collected and reported was simply assumed and data limitations, if any, were not documented and recognized. As reported in the previous section of this report, the audit identified a number of data quality issues with the Economic Project's performance management plan, indicators, targets, data collection, and reported results.

ADS 203.3.5.2 requires that operating units conduct data quality assessments at least every 3 years for all indicators reported in USAID's annual reports and for other data included in special reports to Congress or other oversight agencies. Such assessments

are intended to ensure that performance information is complete, accurate, and consistent. ADS 203.3.5.3 explains that when conducting data quality assessments, operating units must—

- Verify and validate performance information to ensure that data are of reasonable quality;
- Review data collection, maintenance, and processing procedures to ensure that they are consistently applied and continue to be adequate; and
- Retain documentation of the assessment in performance management files—a requirement that is in accord with general Federal requirements to document significant events and to retain such documentation for future examination.

USAID/Mongolia planned to conduct formal data quality assessments of the Economic Project's performance indicators and its reported results in December 2004 and January 2007, but neither the mission nor the Economic Project conducted them.

USAID/Mongolia officials explained that they did not conduct the planned data quality assessments primarily because of competing priorities; they gave lesser priority to performing the data quality assessments with the limited staff resources available in such a small mission.³ The mission managed a portfolio of 10 projects, including the Economic Project, along with frequent congressional delegation visits to Mongolia, and ad hoc tasks from both the U.S. Embassy/Ulaanbaatar and USAID/Washington.

Data quality assessments are a key element of USAID's performance monitoring system and a good management practice. Because the mission had not conducted data quality assessments, the audit identified a number of data quality issues with the Economic Project's performance management plan, indicators, targets, data collection, and reported results. The quality of data being collected and reported was simply assumed and data limitations were not documented and recognized. Flawed data may have led to erroneous management decisions. The cognizant technical officer explained that many of the issues identified in this report would have been identified and corrected if data quality assessments had been conducted.

Because the Economic Project's results framework and performance indicators will change under the contract extension period that will begin in October 2008, this audit makes the following recommendation:

Recommendation No. 2: We recommend that USAID/Mongolia issue a written mission procedure to conduct a data quality assessment of the Economic Policy Reform and Competitiveness project's performance indicators by October 2009 and to conduct subsequent assessments as needed during the remaining contract extension period.

³ USAID/Mongolia's staffing was composed of one U.S. direct hire, one U.S. personal services contractor, and three foreign service nationals.

EVALUATION OF MANAGEMENT COMMENTS

Based on the Office of Inspector General's review of USAID/Mongolia's comments, detailed actions, and supporting documents received, the audit determined that final actions have been taken on both recommendations.

For Recommendation No. 1, the mission modified its contract with Chemonics to require that Chemonics submit a new Performance Management Plan to USAID for review and approval no later than September 18, 2008. Additionally, the contract was modified to require Chemonics to amend the Performance Management Plan on an annual basis, and add, delete or revise the performance indicators and targets as appropriate, and that annual updates shall be submitted to the cognizant technical officer no later than September 18 in each subsequent year of the contract.

For Recommendation No. 2, the mission clarified its responsibilities for conducting data quality assessments of the Economic Project's performance indicators in the same contract modification described above. Specifically, the contract modification states that USAID will conduct formal data quality assessments of the Economic Project's performance indicators by October 2009 and subsequent assessments will be conducted as needed during the implementation of the contract, which may include detailed assessment of the Economic Project's organization, management, field work, significant outputs, performance/schedule data, and the quality and quantity of overall performance.

USAID/Mongolia's written comments on the draft report are included in their entirety (without attachments) as appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila 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 based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit was designed to determine whether USAID/Mongolia's Economic Policy Reform and Competitiveness Project (Economic Project) achieved planned results and what its impact has been. The audit covered Economic Project activities implemented by Chemonics International, Inc. (Chemonics) and its subcontractors from the start of the project in September 2003 through December 31, 2007. As of December 31, 2007, USAID/Mongolia had obligated about \$19 million and disbursed \$17 million for the Economic Project's activities. This report summarizes the results of audit work conducted in Mongolia from May 28 to June 19, 2008.

In planning and performing the audit, we assessed the effectiveness of internal controls used by USAID/Mongolia and Chemonics to monitor Economic Project activities, which included testing the accuracy and reliability of the Economic Project's reported actual results for selected performance indicators.

Methodology

To assess the achievement of planned results, the audit measured actual results against targets for 25 of the Economic Project's key performance indicators in calendar year 2007 and judgmentally selected 14 of those indicators to test the accuracy of reported results. (An additional 14 indicators could not be used, as discussed in the first finding area beginning on page 6.) Furthermore, the audit judgmentally selected 40 of the most significant from the 100 planned activities in the Economic Project's 2007 annual work plan and verified whether the Economic Project delivered as planned on those activities, many of which contributed to the achievements in table 1 on page 4.

To determine the Economic Project's impact, the audit evaluated how the Economic Project contributed to accelerating the policy reform process in Mongolia, promoting increased competitiveness in the Mongolian economy, and enabling and supporting Mongolia's competitive participation in the global economy.

We interviewed cognizant officials from USAID/Mongolia, the U.S. Embassy in Ulaanbaatar, Chemonics and its subcontractors, and the Economic Project's counterparts in the Government of Mongolia, such as the chairman of the Energy Regulatory Authority (Authority), the Authority's director of the Audit Department, the commissioner of the General Department of National Taxation, and the Governor of Khentii province. We also met with the Economic Project's counterparts in the business sector, such as the director of the Mongolian Mortgage Corporation, chief executive officer of XacBank (and chairman of the Credit Information Bureau Working Group), and

the managing director of Battour Travel Agency. Finally, we met with the head of the Chamber of Commerce and Industry in Khentii province and the executive director of a local nongovernmental organization operating in Khentii province.

We analyzed relevant documents at USAID/Mongolia and the Economic Project. These documents included the contract between USAID/Mongolia and Chemonics, contractor performance reports, work and operational plans, performance management plans, progress reports, other monitoring reports, and financial records.

We conducted site visits of Economic Project-supported activities such as the Mongolian Mortgage Corporation, Tourist Information Center, Credit Information Bureau Working Group, and competitiveness activities in Khentii province.

For each performance indicator selected for review, the audit considered the following materiality threshold criteria to measure progress made on the Economic Project:

- The planned result would be achieved if the target number were met.
- The planned result would be partly achieved if progress were made toward meeting the target number.
- The planned result would not be achieved if no progress were made toward meeting the target number.

When testing the accuracy and reliability of actual results reported, we considered exceptions totaling 5 percent or more to represent significant issues that merit reporting. We not only considered the above threshold criteria, but also used auditor judgment to determine the applicability of the threshold criteria, considering other factors such as significance of the selected performance indicators and timeliness of funds distribution.

MANAGEMENT COMMENTS



September 18, 2008

MEMORANDUM

TO: Regional Inspector General/Manila, Catherine M. Trujillo

FROM: USAID/Mongolia Country Representative, Barry K. Primm /s/

SUBJECT: Audit of USAID/Mongolia's Economic Policy Reform and Competitiveness Project (Report No. 5-438-08-OOX-P)

This memorandum constitutes and transmits the written comments and responses of USAID/Mongolia on the two recommendations made in the subject audit.

Recommendation No. 1: "We recommend that USAID/Mongolia issue a Technical Directive to Chemonics that requires the Economic Policy Reform and Competitiveness project to annually update its performance management plan to ensure the usefulness and relevance of the performance indicators and targets, and submit it to USAID/Mongolia for review and approval."

Mission Response: In July 2008, in response to Recommendation No. 1 and in full consultation with Chemonics, RIG/Manila, the Regional Financial Service Center USAID/Philippines Controller (as USAID/Mongolia Audit Management Officer), and the Office of Regional Procurement in Manila, a formal amendment (Amendment #13; attached) to the Chemonics contract was drafted and executed. Inter alia, Amendment #13 amended Section F.2.h of the contract, "Comprehensive Performance Monitoring and Evaluation", by requiring that Chemonics submit a new Performance Management Plan (PMP) to USAID no later than September 18, 2008 for USAID review and approval. Section F.2.h of the contract was further amended to require Chemonics to amend the PMP on an annual basis, and add, delete or revise the performance indicators and targets of the project as appropriate. Annual updates "shall be submitted to the CTO no later than September 18 in each subsequent year of the contract."

Recommendation No. 2: "We recommend that USAID/Mongolia issue a written mission procedure to conduct a data quality assessment of the Economic Policy Reform and Competitiveness project's performance indicators by October 2009

and to conduct subsequent assessments as needed during the remaining contract extension period."

Mission Response: In July 2008, in response to Recommendation No. 1 and in full consultation with Chemonics, RIG/Manila, the Regional Financial Service Center USAID/Philippines Controller (as USAID/Mongolia Audit Management Officer), and the Office of Regional Procurement in Manila, a formal amendment (Amendment #13; attached) to the Chemonics contract was drafted and executed. Inter alia, Amendment #13 amended Section E.5 of the contract, "Monitoring and Evaluation", by requiring that "...Formal data quality assessments (DQAs) of the project's performance indicators will be conducted pursuant to ADS instructions by October 2009. Subsequently, evaluations or assessments will be conducted as needed during the implementation of the contract. Such evaluations and/or assessments will be conducted by USAID or its designated representative, and may include detailed assessment of the project's organization, management, field work, significant outputs, performance/schedule data, and the quality and quantity of overall performance...".

We look forward to receiving feedback from the Regional Inspector General regarding the above comments and actions of USAID Mongolia.

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