OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PAKISTAN'S LIVELIHOOD DEVELOPMENT PROGRAM FOR THE LOWER REGION OF THE FEDERALLY ADMINISTERED TRIBAL AREAS

AUDIT REPORT NO. G-391-11-001-P
DECEMBER 10, 2010

Islamabad, Pakistan

Office of Inspector General

December 10, 2010

MEMORANDUM

TO: USAID/Pakistan Mission Director Acting, Denise Herbol

FROM: Office of Inspector General/Pakistan Director, Steven H. Bernstein /s/

SUBJECT: Audit of USAID/Pakistan's Livelihood Development Program for the Lower
Region of the Federally Administered Tribal Areas
(Report No. G-391-11-001-P)

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

The report contains seven recommendations to help the mission improve various aspects of the program. On the basis of the information provided by the mission in response to the draft report, we consider that management decisions have been taken on six recommendations, and that a management decision is pending for one recommendation. Determinations of final action will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions for all seven recommendations.

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

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SUMMARY OF RESULTS

Located along Pakistan's border with Afghanistan is a segment of rugged terrain stretching some 450 kilometers. This mountainous land, known as the Federally Administered Tribal Areas (FATA), is made up of seven political agencies and six smaller zones called frontier regions. On three sides FATA is bounded by the provinces of Pakistan; the Durand Line, which separates Pakistan from Afghanistan, forms FATA's western border. (See map of FATA in Appendix III.)

FATA functions as a semiautonomous area within Pakistan. The Government of Pakistan (GOP) administers FATA using political agents that interact with influential members of FATA tribes. FATA is one of the most underdeveloped regions in Pakistan, where only 17 percent of the overall population is literate and among women literacy is as low as 3. The vast majority of the population (97 percent) resides in rural areas with nearly 60 percent of all houses built of unbaked brick, earth, wood, or bamboo. While some people are involved in small-scale commercial and industrial sectors, few livelihood opportunities exist, with most households engaged in subsistence agriculture and livestock rearing.

FATA's weak economy, widespread unemployment, lack of social services, and ineffective government make it susceptible to the spread of extremism and foreign terrorist involvement. According to USAID/Pakistan, countering extremist influences in FATA will require a robust economic development program. In response to this need, USAID/Pakistan established the FATA Livelihood Development Program (the program) to provide about $300 million over 5 years. To implement the program in the lower FATA region,[1] USAID/Pakistan signed a 5-year, $150 million cooperative agreement with a U.S.-based nongovernmental organization in March 2008; as of March 31, 2010, the program had expended $30 million of the $48 million obligated. Another U.S.-based nongovernmental organization was awarded $150 million to implement the program in the upper FATA region.

The main goal of the program is to provide social and economic stabilization in FATA to counter the growing influence of extremist and terrorist groups. To measure progress in attaining this goal, the mission established outcome indicators and targets for the indicators. Target outcomes for the conclusion of the program in March 2013 include:

- 40 million days of short-term employment, 26 million specifically for youth.
- 29,375 long-term jobs created, 19,094 of them for youth.
- 55 percent of FATA citizens expressing satisfaction with the basic public services delivered by the GOP.
- 50 percent of FATA citizens expressing tolerance of the GOP's presence inside their territory.
- 50 percent of FATA citizens expressing the view that political administration has improved in their territory.
- 40 percent of infrastructure projects receiving at least 50 percent of their funding from the GOP.
- 65 percent of youth expressing satisfaction toward public policy decision makers.

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[1] The program for lower FATA covers the agencies of Kurram, Orakzai, and North and South Waziristan, as well as the frontier regions of Kohat, D.I. Khan, Tank, Bannu, and Lakki Marwat. The map in Appendix III shows these locations.

USAID's Office of Inspector General in Pakistan (OIG/Pakistan) conducted this audit to determine whether the Livelihood Development Program is achieving its main goal of social and economic stabilization to counter the growing influence of extremist and terrorist groups in the lower FATA region.

The audit found that USAID/Pakistan had made little progress in reaching annual targets that were established to ensure that the program's outcomes as noted above could be accomplished. Table 1 highlights the program's key activity indicators and targets with the corresponding results for the first 2 years as reported to the mission by the implementing partner.[2]

Table 1. Key Targets and Results

Activity Indicator	Target 3/2008–3/2010*	Result 3/2008–3/2010	Result as a Percent of Target
Life skills training for youth	19,500	3,512	18
Scholarships offered to youth	2,960	566	19
Infrastructure projects completed	320	48	15
Enterprises established and/or strengthened	3,640	31	1
Short-term jobs created	50,660	3,692	7
Long-term jobs created	2,922	209	7

* Targets shown represent the total of first- and second-year targets.

It must be emphasized that the main cause for the program achieving so little was the hostile environment in FATA. The implementing partner experienced kidnappings, harassments, and the tragic assassination of its chief of party in November 2008; consequently, program activities stopped for 6 months until security measures were improved and a new chief of party took office. During this time, the implementing partner relocated its country office from Peshawar to Islamabad.

Although the hostile situation led to the program's lack of results, the mission did not ensure adequate monitoring and oversight to achieve program goals. In addition, the program's ability to achieve planned results was hindered by a strategic shift in U.S. Government strategy and the mission's request to provide humanitarian assistance activities.

In September 2009, the U.S. Government's strategy shifted toward greater involvement of Pakistani organizations in implementing U.S. assistance programs. As a result, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers. Consequently, the mission and the implementer jointly developed transition plans that resulted in many planned activities being put on hold or cancelled. As a result of the transition plan, the implementing partner noted that it changed its organizational structure, reduced staff, and notified two of its consortium members that their subcontracts and subagreements would be terminated in November 2009.

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[2] See Appendix IV for a complete list of the activity indicators, targets, and results as reported by the program's implementing partner.

The ability to achieve results was also complicated by mission officials directing the implementing partner to carry out humanitarian assistance activities. Specifically, the mission directed the implementer to (1) procure 10,000 non-food-item kits for emergency humanitarian relief to distribute to internally displaced families affected by military operations in FATA, (2) implement an early warning assessment program for internally displaced persons in the neighboring province of Khyber Pakhtunkhwa,[3] and (3) purchase four fire trucks to be used at camps for internally displaced persons. The audit is not making a determination as to the appropriateness of providing such humanitarian assistance under this program; rather, the audit is stating that requesting this assistance was a factor that caused the implementer to use resources that otherwise would have been used for planned activities.

As a result of the setbacks and shifts in implementation, program funds were not used efficiently. For example, according to the implementing partner, it expended $29.2 million in the first 2 years of the program; however, only $7.6 million was spent on direct program activities, $2.7 million of that going to humanitarian assistance activities. The remaining $21.6 million, or 74 percent, was spent on program support including labor, fringe benefits, consultants, travel, security, and other operating and indirect costs. Table 2 presents a summary of program expenditures.

Table 2. Summary of Livelihood Development Expenditures
Through March 31, 2010

Expenditure Type	As of 3/31/2010 ($)	Percent of Total
Direct project	7,585,605	26
Operations and program support	21,642,643	74
Total	**29,228,278**	**100**

To improve program implementation, USAID/Pakistan should revisit the program's indicators and targets to ensure they are in line with overall program goals and that progress can be measured (page 5); improve monitoring and oversight of the program (page 6); and collaborate more closely with implementing partners regarding the security situation in FATA (page 8).

The report recommends that USAID/Pakistan:

- Revise the implementer's third-year implementation plan to establish ambitious, yet achievable, targets, outcomes, and goals, and modify the cooperative agreement to reflect these changes (page 6).

- Develop and implement a plan to collect baseline data so that progress in achieving the program's outcomes and goals can be measured throughout the remainder of the program (page 6).

- Develop written procedures to document, track, and take corrective action on all deficiencies identified in reports by independent monitoring reviewers (page 7).

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[3] Formerly known as North-West Frontier Province.

- Verify that material internal control weaknesses identified in the financial review are corrected, and document the results (page 7).

- Make a management decision regarding the allowability of and recover, as appropriate, questioned costs of $767,841 ($432,482 ineligible and $335,359 unsupported) identified in the financial review and recover those costs determined to be unallowable (page 7).

- Issue a mission order that establishes security standards to be used when reviewing implementing partners' security plans and when collaborating with these partners throughout implementation (page 9).

- Revisit the implementing partner's approved request for additional security funding, document any adjustment needed, and make a written determination regarding the provision of funding (page 9).

Appendix I presents the audit scope and methodology, and USAID/Pakistan's comments are detailed in Appendix II.

The mission agreed with all of the report's recommendations. On the basis of our evaluation of the mission's response to the draft report (page 10), OIG/Pakistan determined that management decisions have been reached on six recommendations and that a management decision is pending on one recommendation (page 10).

AUDIT FINDINGS

Program's Indicators, Targets and Goals Should Be Revisited

According to USAID's Automated Directives System (ADS) Chapter 203, "Assessing and Learning," technical offices should set performance targets that are ambitious but can realistically be achieved within the stated timeframe and with the available resources.[4] In addition, USAID's Performance Monitoring and Evaluation TIPS No. 6, "Selecting Performance Indicators," stipulates that performance indicators are at the heart of a performance monitoring system—they define the data to be collected to measure progress and enable actual results achieved over time to be compared with planned results. Setting ambitious, yet achievable, targets is essential for the successful management and achievement of planned results of foreign assistance programs. Targets help establish clear expectations for USAID staff, implementing partners, and key stakeholders. In contrast, targets that are easily achievable are not useful for management and reporting.

Contrary to this guidance, the program's indicators and targets changed significantly during the 2-year period; consequently, they were not effective measures of performance. After failing to make significant progress toward its first-year targets, the mission significantly revised or cancelled second-year indicators and targets midway through this performance period. The mission reduced many of the original targets so that they could be achieved easily, essentially making the targets unrealistic and unuseful for management purposes.

Table 3 highlights the significant changes made to the program's activity indicator targets. For example, the target for providing *life skills training for youth* started at 13,500 youths during the first year. This target eventually was revised to only 3,500 youths, 74 percent lower than the original target.[5]

Table 3. Summary of Changes to Targets

Activity Indicator	1st Year Target	2nd Year Target	Revised 2nd Year Target	Additional Revision to 2nd Year Target
Life skills training for youth	13,500	6,000	7,500	3,500
Scholarships offered to youth	1,400	1,560	353	566
Infrastructure projects completed	199	121	80	41
Enterprises established/strengthened	217	3,423	242	151
Short-term jobs created	46,850	3,810	0	0
Long-term jobs created	1,697	1,225	0	0

The need to revise and cancel indicators and targets resulted from the causes noted on page 2—specifically, the deteriorating security situation in FATA, the strategy shift toward greater

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[4] ADS 203.3.4.5.
[5] See Appendix IV for a complete list of the activity indicators, targets, and results as reported by the program's implementing partner.

involvement of Pakistani organizations, and the mission's request that the implementer do humanitarian assistance work that was not directly related to achieving program goals. As a result, the revised indicators and targets may no longer be sufficient to achieve the desired outcomes. For example, whereas indicators and targets have been revised continually, the program's goal of achieving social and economic stabilization to counter the growing influence of extremist and terrorist groups in lower FATA has not changed. See pages 1 and 2 for a list of the outcomes USAID/Pakistan planned to achieve.

The program was not on schedule to accomplish desired outcomes. In addition to lowering targets so that they no longer facilitate accomplishing program goals, the mission did not collect baseline data to measure progress toward achieving the desired outcomes and goals. The lack of baseline data undermines management decision making and hinders evaluation efforts. In addition, the frequent changing of indicators and targets fails to provide clear expectations for USAID/Pakistan staff, implementing partners, and key stakeholders. As a result of the changing targets and the lack of baseline data, it is unclear whether the overall goal of the program can be achieved when measured against the desired outcomes. To address the deficiencies, we recommend the following:

> *Recommendation 1. We recommend that USAID/Pakistan revise the implementer's third-year implementation plan to establish ambitious yet achievable targets, outcomes, and goals, and modify the program's cooperative agreement as required to reflect these changes.*

> *Recommendation 2. We recommend that USAID/Pakistan develop and implement a plan to collect baseline data so that progress in achieving the program's outcomes and goals can be measured throughout the remainder of the program.*

Monitoring and Oversight Needs Improvement

ADS 596.3.1 stipulates that USAID managers and staff must develop and implement cost-effective management controls for results-oriented management to reasonably ensure that assets are safeguarded against loss and unauthorized use. Furthermore, ADS states that management control activities must be both effective and efficient in accomplishing the Agency's control objectives. A key control activity is adequate documentation of internal control, of which monitoring is a central component.

Because of security restrictions placed on U.S. personnel in FATA, USAID/Pakistan did not perform onsite monitoring of the implementing partner's activities. To compensate, USAID/Pakistan engaged a U.S.-based contractor working on another mission program to perform onsite monitoring in May 2009, nearly 14 months after signing the cooperative agreement. From June 2009 through April 2010, the contractor conducted 215 site visits covering program activities. The audit found that 61 of the 215 site visit reports were marked "urgent" and requested corrective action by mission officials. For example, the reports noted the following deficiencies:

- Flood protections were not built in accordance with design specifications.
- Expansion of a school's classrooms was abandoned because of delays in payments to subcontractors.
- Inferior material and unskilled workers were used during construction.
- Infrastructure work was not completed in accordance with specifications.

Mission officials stated that they discussed the monitoring reports and associated corrective actions with the implementing partner; however, the mission did not follow up to ensure that the corrective actions were taken.

In addition, the mission engaged an accounting firm to perform a financial review of the implementer's accounting and management system as a result of allegations of improper use of funds during the program's first year. The report, dated February 2010, identified three material control weaknesses: ineffective monitoring, weak internal audit function, and poor financial reporting. In addition, the report noted that the implementing partner had not established a separate bank account for one of its subrecipients as required by USAID/Pakistan. Also, the report noted that the implementing partner's inventory management system needed improvement. The report also questioned costs of approximately $767,841 ($432,482 ineligible and $335,359 unsupported costs). USAID/Pakistan needs to make a determination on the allowability of these costs and recover them as appropriate. The questioned costs included approximately $188,000 that may have been the result of the misuse of funds for a cash-for-work activity. Specifically, according to the report, USAID/Pakistan funded the purchase of 2.3 million trees for a reforestation project; however, only 1.2 million trees could be accounted for. This issue is under investigation by the Office of Inspector General.

Despite the nature of the findings in the financial report, the mission did not verify that the material internal control weaknesses identified were corrected, nor did the mission make a determination on the questioned costs of $767,841. This occurred in part because the mission did not develop procedures to document, track, and take corrective action on the deficiencies identified by independent reviewers.

The onsite monitoring reports provide additional value to the management process when used as feedback to refine and improve program activities. While routine monitoring is necessary to verify compliance with award requirements, timely verification and validation are critical to ensure that the program is working and technical managers are taking action to improve implementation. Adequately documenting and tracking the corrective actions contained in the reports can help USAID/Pakistan avoid poor-quality work and the potential misuse of funds and achieve the program's main goal. To address these issues, we recommend the following:

> *Recommendation 3. We recommend that USAID/Pakistan develop written procedures to document, track, and take corrective action on all deficiencies identified in reports independent[6] monitoring reviewers.*
>
> *Recommendation 4. We recommend that USAID/Pakistan verify that the material internal control weaknesses identified in the financial review are corrected and document the results.*
>
> *Recommendation 5. We recommend that USAID/Pakistan make a management decision regarding the allowability of $767,841 in questioned costs ($432,482*

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[6] Independent monitoring reviewers can also be referred to as third-party contractors.

ineligible and $335,359 unsupported) identified in the financial review and recover those costs determined to be unallowable.

Guidance Needed for Security Collaboration with Partners

USAID/Pakistan's Office of Safety and Security is responsible for providing a high level of safety, security, and operational support to all USAID offices and personnel and mission partners and grantees.[7] Best practices for carrying out this responsibility include adopting and distributing common security standards for reviewing implementers' security plans and providing ongoing security collaboration.[8]

The audit found that USAID/Pakistan did not provide the Office of Safety and Security guidance on reviewing implementing partners' security plans or on providing ongoing security to implementing partners. USAID/Pakistan did not determine what security measures would be appropriate to carry out activities in FATA. The cooperative agreement merely encouraged recipients to obtain the latest Department of State travel advisory notices before traveling.

Further, the mission did not provide specific guidance for budgeting for security. The cooperative agreement notes that the implementer is responsible for establishing a reasonable level of personal security in view of the operating and security conditions in FATA. The agreement states that the costs for such security measures should be realistic given the level of threat in the performance location and provide for the level of security that the implementer reasonably deems appropriate. The original security budget contained in the cooperative agreement was less than $500,000 over 5 years, or 0.3 percent of the total $150 million program budget. The mission did not provide guidance on whether the security budget of $500,000 over 5 years was realistic.

By some accounts, Pakistan has become one of the most dangerous countries in the world for humanitarian workers and volunteers. In fact, a review of the implementing partners' quarterly reports disclosed a number of incidents of detainments and harassment of program staff and subcontractors. Less than 4.5 months into the first year of the program, the implementer's chief of party and his Pakistani colleague were assassinated. According to the implementer and mission officials, the event devastated staff morale, severely disrupted the program, and resulted in the immediate evacuation of senior staff to Islamabad. After the assassination in November 2008, the program essentially came to a halt.

In response to the deteriorating security situation in Pakistan, USAID/Pakistan issued a mission notice on February 12, 2009, asking all implementing partners to assess their security needs and to submit security plan packages complete with an overall security plan and a request for any funds needed to enhance security. The program's implementing partner responded by submitting a request for approximately $20 million to upgrade security services and equipment. The mission approved the request on June 3, 2009; however, the audit noted that the implementing partner never received any additional funding. According to implementing partner

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[7] Solicitation 391-11-013.
[8] *Saving Lives Together,* published by the United Nations in November 2006, serves as a framework for best security practices on security collaboration. Also, USAID's Office of Foreign Disaster Assistance refers to *Operational Security Management in Violent Environments* (HPN Good Practice Review 8, written by Koenraad Van Brabant and published by the Humanitarian Practice Network at the Overseas Development Institute in June 2000) as the "humanitarian security bible."

officials, they approached the mission on several occasions to discuss the status of the budget modification; however, additional funding was never provided by USAID/Pakistan. According to mission officials, budget considerations prevented funding the request when it was submitted, and to date the mission has not revisited the request. USAID/Pakistan officials recognize the need to develop best practices for security and noted that they are drafting written guidelines. According to USAID/Pakistan officials, the security office is also hiring additional employees to supplement the mission's two permanent safety and security specialists.

USAID/Pakistan does not have standards to use in reviewing implementing partners' security plans to make sure they are generally well developed and are tailored to the area of implementation. In addition, USAID/Pakistan's implementing partner has already exceeded its original $500,000 security budget, which was to cover the entire 5-year program. As of March 31, 2010, the implementing partner had spent over $800,000 to provide security, and the mission had yet to provide additional funds to cover the implementer's request to upgrade security. Relying on the implementer to continue to use program funds for security may jeopardize program results. Further, if USAID/Pakistan chooses to begin a more aggressive branding strategy for activities implemented in FATA, security concerns will become even more pressing. Therefore, we recommend the following:

> **Recommendation 6.** *We recommend that USAID/Pakistan issue a mission order that establishes security standards to be used when reviewing implementers' security plans and when collaborating with implementing partners throughout implementation.*

> **Recommendation 7.** *We recommend that USAID/Pakistan revisit the implementing partner's approved request for additional security funding, document any adjustments needed, and make a written determination regarding the provision of funding.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, the mission agreed with all of the report's recommendations. On the basis of our evaluation of the mission's response to the draft report, the Office of Inspector General determined management decisions have been reached on six recommendations, and that a management decision is pending on one recommendation. The status of each of the seven recommendations is shown below.

Management decision—Recommendations 1, 2, 3, 4, 6, and 7.

No management decision—Recommendation 5.

Recommendation 1. The mission agreed with the recommendation and has issued two letters to the implementer regarding Year 3 implementation. The mission also has reduced the scope of this agreement as a result of budget realignment. The revised third-year implementation plan directs the implementer to focus on new work activities in agriculture, agribusiness development, and minerals and mining. The mission's target date to modify the program's cooperative agreement is January 31, 2011.

Recommendation 2. The mission agreed with the recommendation and plans to develop and implement a missionwide baseline data tracking system to measure program results. The mission expects to complete this system by July 1, 2011.

Recommendation 3. The mission agreed with the recommendation. The mission plans to develop written procedures for documenting, tracking, and taking action on deficiencies identified in independent reports. The agreement officer's technical representative will continue to take the lead on tracking deficiencies and ensuring that they are corrected before payments are made. The mission expects to develop procedures by February 28, 2011.

Recommendation 4. The mission agreed with the recommendation and plans to correct the material internal control weaknesses identified in the financial review. The target date to complete this plan is March 31, 2011.

Recommendation 5. The mission agreed with the recommendation and indicated it would investigate the allowability of $767,841 in questioned costs ($432,482 ineligible and $335,539 unsupported) by February 28, 2011. A management decision can be reached after that date.

Recommendation 6. The mission agreed with the recommendation and is establishing a new mission order to review security plans of implementing partners. The mission order will also establish guidance on security procedures. The target date to issue the mission order is January 31, 2011.

Recommendation 7. The mission agreed with the recommendation, and the request for additional security funding will be revisited and reviewed in accordance with the new mission order established in Recommendation 6. Once the mission order is established, the mission will

document any adjustments needed, and make a written determination regarding the provision of funding. The target date to complete this action is February 28, 2011.

A determination of final actions for Recommendations 1, 2, 3, 4, 6, and 7 will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions.

The mission's written comments on the draft report are included in their entirely as Appendix II to 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 the Livelihood Development Program is achieving its main goal of social and economic stabilization to counter the growing influence of extremist and terrorist groups in lower Federally Administered Tribal Area (FATA). To implement the program in lower FATA, USAID/Pakistan signed a 5-year, $150 million cooperative agreement with a U.S.-based nongovernmental organization in March 2008. As of March 31, 2010, cumulative obligations and expenditures under the program totaled approximately $47.6 million and $29.9 million, respectively.

The audit covered March 2008 through March 2010 and addressed the activities implemented under the program. To answer the audit objective, we reviewed mission documentation related to managing and monitoring the program, country operational plans, performance management plans, implementing partner agreements, performance measures, actual performance results, certifications required under the Federal Managers' Financial Integrity Act of 1982, financial reports, data quality assessments, and site visit and monitoring reports prepared by independent U.S. contractors. We also interviewed mission officials, implementing partners, and host government officials. We reviewed and compared plan targets with reported results.

We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to USAID/Pakistan's program: certifications required by the Federal Managers' Financial Integrity Act of 1982; Automated Directives System Chapters 202, 203, and 596; and supplemental guidance. The audit relied on the following sources of evidence: reviews of Agency policies, internal controls, prior audits, and contracts; interviews with and information requested from implementing partners and USAID/Pakistan officials. Audit fieldwork was performed at the USAID/Pakistan mission and the implementer's main program office in Islamabad from May 26 through July 26, 2010.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the program and ensure that its implementer was providing adequate oversight of program activities. These controls included maintaining regular contact with the implementer and reviewing quarterly progress reports. These reports provided a narrative overview of the status of activities in lower FATA, including significant issues and new developments. Additionally, the auditors examined the mission's FY 2009 self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982, to check whether the assessment cited any relevant weaknesses.

Methodology

To determine whether the program was achieving its main goals, the audit team initially interviewed staff at USAID/Pakistan and the implementer's main country office to gain an understanding of the program, the key players and their roles and responsibilities, and the reporting procedures and controls for monitoring the program.

The audit evaluated whether the indicators used by the program are sufficiently results-oriented to permit their use in answering the audit objective. Through discussions with USAID/Pakistan officials and implementing partners, the auditors gained an understanding of (1) how the indicators are defined and computed, (2) the data sources utilized, and (3) the flow of data from the implementing partner's performance reports to its inclusion in their quarterly and annual reports. In validating the results reported under the program, the auditors checked key reported results against supporting data in a database maintained by the implementer. To test the accuracy of the data in this database and verify the number of reported beneficiaries, the auditors checked the data against supporting documentation. Similar but more limited testing was done for certain other activities, such as cash for work and training.

In addition, the audit performed the following detailed tests:

- In validating the 566 scholarships (valued at $820,008) offered to youths under Component 1, the audit team reviewed a judgmentally selected sample of 15 scholarship vouchers paid during October 2008 and April 2009 totaling $50,699 and $22,573, respectively. To validate the 15 vouchers, the audit team examined the bank payment voucher, a copy of the check, agreements with the recipient university, a listing of students, the posting to the general ledger, and bank statements.

- In validating the reported results for the 48 completed infrastructure activities in the lower FATA area under Component 2, the audit reviewed a sample of 18 out of 50 total vouchers pertaining to 9 (19 percent) of the 48 completed infrastructure activities. The scope of this testing focused on examining the supporting records, and reviewing the internal controls for verifying the completion of the activities.

In assessing the status of the activities being carried out during the program's first and second years of operation, the auditors relied primarily on the implementer's quarterly progress reports from March 2008 through March 2010, supplemented by interviews conducted with USAID/Pakistan and implementing partner staff regarding specific implementation problems reflected in these reports. The audit also included a review of applicable procedural guidance, including detailed flow charts, relating to the management of specific program components.

To categorize the results, the auditors established a materiality threshold of 80 percent, based partly on the challenging environment in which the program was operating. For example, if the implementer achieved at least 80 percent of its target for an activity, the auditors concluded that the activity was contributing to the program's outcomes and goals. Because the samples selected for substantive testing were judgmental, the results were not projected to the total population. However, because the mission itself reported minimal progress in achieving the program's targets, we believe that our substantive testing was sufficient to support the conclusion that little progress was made in reaching the program's outcome and goals.

MANAGEMENT COMMENTS

MEMORANDUM

Date: November 29, 2010

To: Steven Bernstein
               OIG/Pakistan

From: Denise Herbol
               Mission Director (A) /s/

Subject: Management Comments
               Audit of USAID/Pakistan's Livelihood Development Program for the
               Lower Regions of the Federally Administered Tribal Areas
               (Report No. G-391-11-00X-P)

Reference: Steven H. Bernstein's memo dated October 18, 2010

In response to the referred memo, please find below the management comments on the seven recommendations included therein:

Recommendation No 1: We recommend that USAID/Pakistan revise the implementer's third-year implementation plan to establish ambitious yet achievable targets, outcomes and goals, and modify the program's cooperative agreement as required to reflect these changes.

Management Comments:
Mission management concurs with this recommendation. The Office of Acquisition and Assistance (Pakistan) has issued two letters to *[Redacted per FOIA Ex. 2]* regarding year three implementation. It is important to note the scope of this agreement has been reduced due to budget realignment. USAID/Pakistan has eliminated the need for *[Redacted per FOIA Ex. 2]* to continue previously funded literacy and infrastructure programs. *[Redacted per FOIA Ex. 2]* has been directed to focus on new work activities in the areas of agriculture, agribusiness development, minerals and mining during Year Three Implementation.   A modification will be issued by January 31, 2011 to incorporate this new guidance.

Recommendation No 2: We recommend that USAID/Pakistan develop and implement a plan to collect baseline data so that progress in achieving the

program's outcomes and goals can be measured throughout the remainder of the program.

Management Comments
Mission management concurs with this recommendation. The OAA will work with the technical team to collect baseline data of the program. Also USAID, led by the Program Office, will launch an in-house monitoring database. This system, called PakInfo, is a web-based database that will track key indicators inputted by partners according to their agreed-upon PMPs. It will also track indicators geographically. The database will be launched in February 2011. More importantly, the mission is in the process of procuring new Monitoring & Evaluation (M&E) services. The new M&E contract will not only incorporate the PakInfo database, but will also offer more comprehensive M&E monitoring abilities for the mission as a whole. These additional M&E requirements will be incorporated into all new and existing agreements and contracts for bilateral modification by July 2011. The COTR will establish a schedule for the vendor to collect the necessary baseline data. The mission expects to have this completed by July 1, 2011.

Recommendation No 3: We recommend that USAID/Pakistan develop written procedures to document, track, and take corrective action on all deficiencies identified in reports by independent monitoring reviewers.

Management Comments
Mission management concurs with this recommendation. USAID, led by the Program Office, will develop written procedures for documenting, tracking, and taking action on all deficiencies identified in such reports. The AOTR/COTR will continue to take the lead on tracking noted deficiencies and ensuring that they are corrected before payments are made to subcontractors. The mission expects to have the procedures completed and implemented by February 28, 2011.

Recommendation No 4: We recommend that USAID/Pakistan verify that the material internal control weaknesses identified in the financial review are corrected and document the results.

Management Comments
Mission Management concurs with this recommendation. The Office of Acquisition and Assistance, along with the technical office and Office of Financial Management, will devise a plan to correct the material internal control weaknesses identified in the financial review. The findings will be made available to the OIG on March 31, 2011

Recommendation No 5: We recommend that USAID/Pakistan make a management decision regarding the allowability of $767,841 of questioned costs ($432,482 ineligible and $335,539 unsupported) identified in the financial review and recover those costs determined to be unallowable.

Management Comments
Mission management concurs with this recommendation. The Office of Acquisition and Assistance will work in collaboration with the Office of Financial management and technical offices to investigate the allowability of the questioned costs by February 28, 2011.

Recommendation No 6: **We recommend that USAID/Pakistan issue a mission order that establishes security standards to be used when reviewing implementers' security plans and when collaborating with implementing partners throughout implementation.**

Management Comments
Mission management concurs with this recommendation. MISSION ORDER – 300 .3, Submission and Review of Security Plans of Implementing Partners, is currently being reviewed and will be solicited for mission approval shortly. This Mission Order will establish security guidance procedures for implementing partners. This Mission Order will be issued by January 31, 2011.

Recommendation No 7: **We recommend that USAID/Pakistan revisit the implementing partner's approved request for additional security funding, document any adjustments needed, and make a written determination regarding the provision of funding.**

Management Comments
Mission management concurs with this recommendation. The request for additional security funding will be revisited and reviewed in accordance with mission order - 300.3 and any adjustments needed will be documented. This will be completed by February 28, 2011.

Map of Pakistan's FATA
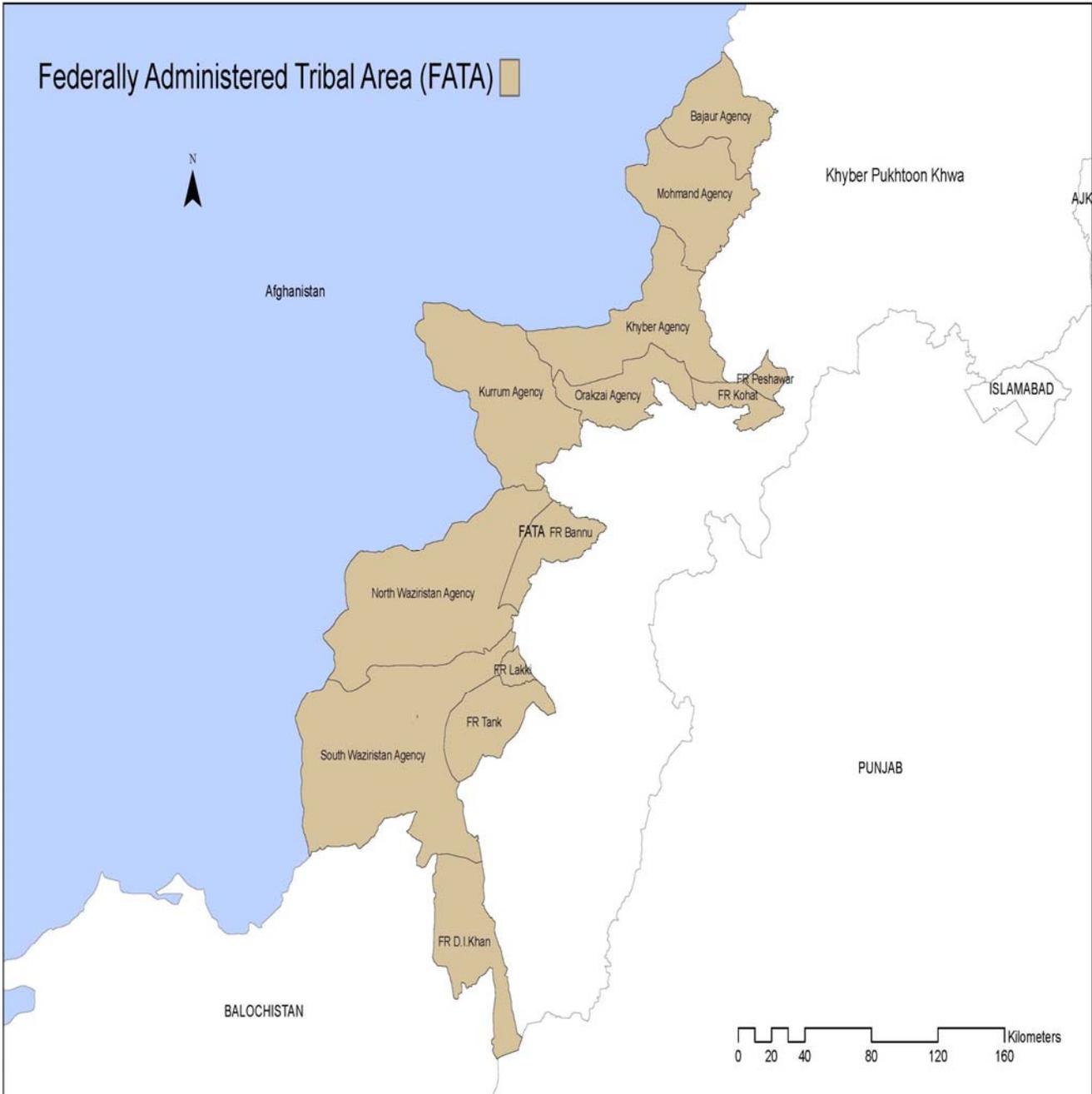
Sources: Government Accountability Office and USAID

The boundaries, names, and spellings used on this map do not imply official endorsement or acceptance by the U.S. Government. The cooperative agreement provided for implementation of program activities in the following geographic areas: FATA Agencies Kurrum, Orakzai, North and South Waziristan; Frontier Regions Kohat, D.I. Khan, Tank, Bannu, and Lakki Marwat. These areas within FATA were referred to as lower FATA for the purposes of this program.

Detailed Indicators, Targets, and Results

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
COMPONENT 1								
1.1 Development training for youth	Vocational school developed	N/A	N/A	1	Cancelled	Cancelled	Cancelled	
	Vocational teachers trained	50	0	20	Cancelled	Cancelled	Cancelled	
	Vocational institutes rehabilitated	N/A	N/A	2	Cancelled	Cancelled	Cancelled	
	New institutional committees piloted	9	0	Cancelled	Cancelled	Cancelled	Cancelled	
	Technical institutes rehabilitated	3	0	Cancelled	Cancelled	Cancelled	Cancelled	$2,453
	Women's skills centers rehabilitated	6	0	Cancelled	Cancelled	Cancelled	Cancelled	
	Vocational centers delivering training established	9	0	Cancelled	Cancelled	Cancelled	Cancelled	
1.2 Life skills, literacy, and numeracy	Practical life skills training delivered	13,500	0	6,000	7,500	3,500	3,512	$203,580
	Youths given skills needed for livelihood opportunities	N/A	N/A	2,425	Cancelled	Cancelled	Cancelled	
	Master trainers trained	90	0	20	Cancelled	Cancelled	Cancelled	
1.3 Scholarships, apprenticeships, and career counseling	Higher education scholarships offered to youth	250	163	760	149	163	0	$441,328

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
	Technical and vocational scholarships offered to youth	1,150	303	800	204	403	100	$378,680
	Youths provided with access to career counseling	70%	0%	980	353	320	285	$112,871
	Apprenticeships offered to youth	250	0	400	200	Cancelled	Cancelled	$6,569
	Job market survey conducted	N/A	N/A	Cancelled	Cancelled	Cancelled	Cancelled	$6,854
1.4 Youth civic engagement	Youth groups established to support tribal networks	1	0	4	4	4	Cancelled	
	Youth action grants disbursed	60	0	50	24	24	24	$171,645
Total Direct Project Expenditures – Component 1								**$1,323,980**
COMPONENT 2								
2.1 Improved delivery of education infrastructure and services	Projects completed	84	0	65	52	31	38	$2,224,679
	Short-term (unskilled) jobs created	1,530	0	2,865	N/A	N/A	N/A	
	Skilled jobs created	N/A	N/A	281	N/A	N/A	N/A	
	Employment days generated	N/A	N/A	N/A	209,158	31,221	N/A	
	Health facilities equipped	N/A	N/A	N/A	13	Cancelled	N/A	

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
2.2 Improved delivery of health infrastructure and services	Projects completed	55	0	16	28	10	10	$333,912
	Short-term (unskilled) jobs created	18,165	0	571	N/A	N/A	N/A	
	Skilled jobs created	N/A	N/A	56	N/A	N/A	N/A	
	Employment days generated	N/A	N/A	N/A	69,152	8,234	N/A	
2.3 Improved delivery of social infrastructure	Projects completed	37	0	40	Cancelled	Cancelled	Cancelled	
	Short-term (unskilled) jobs created	16,043	0	374	N/A	N/A	N/A	
	Skilled jobs created	N/A	N/A	23	N/A	N/A	N/A	
Cash for Work	Trees planted	2,000,000	1,200,000	N/A	N/A	N/A	N/A	$535,223
	Acres covered	4,000	2,570	N/A	N/A	N/A	N/A	
	Rural infrastructure schemes completed	23	0	N/A	N/A	N/A	N/A	
	Short-term jobs created	10,203	3,692	N/A	N/A	N/A	N/A	
	Long-term jobs created	105	29	N/A	N/A	N/A	N/A	
	Water resource study done	1	0	N/A	N/A	N/A	N/A	
Other Activity	Immediate needs of the internally displaced met	N/A	N/A					$2,733,102
Total Direct Project Expenditures – Component 2								**$5,826,916**

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
COMPONENT 3								
3.1 Microenter-prises – milk collection, livestock breed improvement, honey production, dairy herd grants	Enterprises established	217	31	532	Cancelled	Cancelled	Cancelled	
	Permanent jobs created	651	1	865	Cancelled	Cancelled	Cancelled	
	Income/sales increased	N/A	N/A	20-40%	Cancelled	Cancelled	Cancelled	
	Grants disbursed	217	0	Cancelled	Cancelled	Cancelled	Cancelled	
	Skilled youths trained in business management	117	0	Cancelled	Cancelled	Cancelled	Cancelled	
	Households benefited	N/A	N/A	N/A	3,200	722	722	$188,809
3.2 Value-chain development	Furniture enterprises established	N/A	0	345-365		92	N/A	$62,712
	Permanent jobs created	600	0	N/A	Cancelled	Cancelled	Cancelled	
	Sector revenue increases	4.5%	0%	N/A	Cancelled	Cancelled	Cancelled	
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	See page 21, last row	N/A	
	Income/sales increased	20%	0%	35%	25%	25%	N/A	
	Gems/jewelry enterprises established	N/A	N/A	600-650	55	14	N/A	

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	See page 21, last row	N/A	
	Income/sales increased	35%	0%	35%	25%	25%	N/A	
	Marble enterprises established	N/A	N/A	500	65	35	N/A	$24,402
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	See page 21, last row	N/A	
	Income/sales increased	15%	0%	35%	25%	25%		
	Leather enterprises established	N/A	N/A	671	70	10	N/A	$12,218
	Leather employment generated	N/A	N/A	See page 21, last row	See page 21, last row	See page 21, last row	N/A	
	Leather income/sales increased	N/A	N/A	25-30%	20%	20%	N/A	
	Minerals enterprises established	N/A	N/A	TBD	TBD	TBD	TBD	
	Employment generated	N/A	N/A	TBD	TBD	TBD	TBD	
	Income/sales increased	N/A	0%	TBD	TBD	TBD	TBD	
3.3 Value-chain development – Agriculture	Livestock enterprises established	N/A	N/A	654	Cancelled	Cancelled	Cancelled	
	Short-term jobs created	909	0	N/A	Cancelled	Cancelled	Cancelled	
	Permanent jobs created	341	0	N/A	Cancelled	Cancelled	Cancelled	
	Households benefited	875	0	N/A	Cancelled	Cancelled	Cancelled	

Component	Indicator	Year One Target	Year One Result	Year Two Target	Transition Target	Revised Transition Target	Year Two Result	Direct Expense
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	Cancelled	Cancelled	
	Income/sales increased	N/A	N/A	50-80%	Cancelled	Cancelled	Cancelled	
	Horticultural enterprises established	N/A	N/A	95	30	Cancelled	Cancelled	
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	Cancelled	Cancelled	
	Income/sales increased	N/A	N/A	30-100%	30%	Cancelled	Cancelled	
	Small poultry enterprises established	N/A	N/A	26	Cancelled	Cancelled	Cancelled	
	Employment generated	N/A	N/A	See page 21, last row	See page 21, last row	Cancelled	Cancelled	
	Income/sales increased	N/A	N/A	30-100%	Cancelled	Cancelled	Cancelled	
3.4 Agricultural	Agricultural trade fairs held	1	0	Cancelled	Cancelled	Cancelled	Cancelled	
All sector results for training and employment	Training delivered, all sectors	N/A	N/A	N/A	325	230	282	$146,568
	Employment generated, all sectors	N/A	N/A	3,094	348	188	179	
Total Direct Project Expenditures – Component 3								**$434,709**

Notes: Year 1 targets from Implementation Plan dated June 27, 2008, and from Implementation Plan – Year One dated February 20, 2009; Year 1 results per Annual Report dated April 15, 2009, and from Implementation Plan – Year One dated February 20, 2009; Year 2 targets from Implementation Plan dated March 31, 2009; transition targets and revised transition targets taken from Year Two Implementation Plan – Updated March 2010; Year 2 results from Annual Report dated April 30, 2010; direct project expenses as reported by implementer directly to auditors.

Summary of Livelihood Development Expenditures through March 31, 2010

Expenditure Type	As of 3/31/2010 ($)	Percent of Total
Direct Project*	7,585,605	26
Operations and Program Support	21,642,673	74
Total	**29,228,278**	**100**

* Direct project expenses as reported by implementer directly to auditors.