



## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF USAID/PAKISTAN'S COMMUNITY REHABILITATION INFRASTRUCTURE SUPPORT PROGRAM

AUDIT REPORT NO. G-391-11-006-P  
AUGUST 29, 2011

ISLAMABAD, PAKISTAN



*Office of Inspector General*

August 29, 2011

**MEMORANDUM**

**TO:** USAID/Pakistan Mission Director, Andrew Sisson

**FROM:** Office of Inspector General/Pakistan Acting Director, David J. Clark /s/

**SUBJECT:** Audit of USAID/Pakistan's Community Rehabilitation Infrastructure Support Program (Report No. G-391-11-006-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 ten 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 determined that final actions have been taken on two recommendations, and management decisions have been made on the other eight. A determination of final action on the remaining recommendations will be made by the Audit Performance and Compliance Division when the mission completes planned corrective actions on the remaining recommendations.

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

# CONTENTS

- Summary of Results** ..... 1
- Audit Findings**..... 4
  - Poor Program Design Led to Inefficiencies..... 4
  - Targets Were Not Revised to Reflect Program Focus ..... 5
  - Sustainability Analysis Was Not Done for All Activities ..... 7
  - Mission Lacked Procedures to Verify That Funding Is Not Used for Religious Institutions ..... 8
  - Internal Control for Activity Approval Was Bypassed..... 9
  - Program Lacked an Approved Marking Plan ..... 10
  - Cost-Sharing Contributions Were Questionable ..... 10
- Evaluation of Management Comments**..... 12
- Appendix I – Scope and Methodology**..... 14
- Appendix II – Management Comments**..... 16

The following abbreviations appear in this report:

ADS	Automated Directives System
CFR	Code of Federal Regulations
CRISP	Community Rehabilitation Infrastructure Support Program
C&W	Communication and Works Department
OB/GYN	Obstetrics and Gynecology
OIG	Office of Inspector General

# SUMMARY OF RESULTS

One of the many problems facing Pakistan is poor infrastructure for delivering basic human services such as education, health care, water supply, sanitation, electricity, and transportation. Because of infrastructure deficiencies, many children attend overcrowded and unsafe schools, rural villages have neither a piped water network nor proper sanitation systems, irrigation canals are deteriorating, health clinics need renovations and upgrades, and roads needed for the transport of people and goods are in disrepair.

To address inadequate infrastructure, on February 2009 USAID/Pakistan signed a 5-year, \$150 million cooperative agreement with Winrock International to implement USAID/Pakistan's Community Rehabilitation Infrastructure Support Program (CRISP). As of March 31, 2011, USAID/Pakistan had spent \$16.9 million of the \$41.9 million obligated for the program.

The primary objective of the program is to provide a mechanism to enable the mission to respond quickly to infrastructure needs. USAID/Pakistan identified the following activities as priority projects to be implemented within 6 months of the start of the program:

- Rebuild or renovate up to 2,000 schools using local contractors.
- Construct up to 350 small to medium-size community infrastructure projects, such as roads, irrigation, sanitation, and power.

CRISP is managed by the mission's Office of Infrastructure and Engineering and was designed as a crosscutting program to provide infrastructure support to USAID/Pakistan programs being implemented by various technical offices.

USAID's Office of Inspector General in Pakistan (OIG/Pakistan) conducted this audit to determine whether USAID/Pakistan's CRISP was achieving its main goal of constructing and renovating community infrastructure to improve the delivery of basic human services such as education, health care, water supply, sanitation, electricity, and transportation, as well as to promote economic growth in rural areas of Pakistan.

The audit found that the mission had made little progress toward achieving the program's goal. Two years after signing the cooperative agreement, the mission had completed only four minor renovations of universities and six career centers. The program was far behind schedule to complete 350 community infrastructure projects. Moreover, only five other activities had been completed during this time, consisting of two design projects, two feasibility studies, and the procurement of furniture and equipment for a children's health institute.

Explaining the lack of progress, USAID/Pakistan officials stated their belief that the objective and targets of the program were illustrative, established before the mission's technical teams knew exactly what they wanted to accomplish. Moreover, the officials noted the mission had gone through many different strategies, with different programmatic directions, that have caused the dropping and delaying of many activities. The audit noted that the mission had shifted the nature of the work from the planned, small-scale, community-based work to large-scale, complicated construction and rehabilitation. Consequently, the mission did not design or approve many of the programs that the program originally intended to implement.

The audit also disclosed the following problems with implementation:

- The program's poor design led to inefficiencies and considerably higher implementation costs (page 4).
- Targets were not revised to reflect the current focus of the program (page 5).
- Sustainability analysis was not done for all construction and rehabilitation activities (page 7).
- The mission lacked procedures to verify that program funding is not used for religious institutions (page 8).
- An internal control for activity approval was bypassed (page 9).
- The program lacked an approved marking plan (page 10).
- Cost-sharing contributions submitted by the implementing partner were questionable (page 10).

Because of the problems noted above, the report recommends that USAID/Pakistan:

1. Evaluate the implementing mechanism for the program and determine how to restructure it to realize efficiencies in program implementation (page 5).
2. Establish performance indicators and targets for each activity implemented by CRISP, and document that the results of these activities are included in the mission's performance management plan (page 7).
3. Develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health (page 7).
4. Revise the activity approval process to include a sustainability analysis for all infrastructure activities implemented under this program, regardless of the funding level (page 8).
5. Review the list of all educational institutions receiving assistance with construction supervision under the program's Infrastructure Support and Capacity Development Project to determine whether any are religious institutions, and recover any costs deemed unallowable (page 8).
6. Develop and implement a plan to increase awareness among mission and implementing partner staff of USAID's policy prohibiting the funding of religious activities (page 8).
7. Determine whether to amend or follow the program's internal control procedure requiring the mission director's approval for all activities exceeding \$500,000 (page 9).
8. Obtain an updated marking plan from the implementing partner within 90 days, and implement a plan to monitor the status of the implementing partner's marking plan (page 10).

9. Modify the cooperative agreement to require that cost-sharing contributions for all activities be calculated on a flexible, case-by-case basis (page 11).
10. Notify the program's implementing partner that the previously submitted cost-sharing contributions totaling \$4.7 million are ineligible, and amend the program's financial reports (page 11).

Detailed findings follow. OIG/Pakistan's evaluation of management comments begins on page 12. The audit scope and methodology are described in Appendix I, and USAID/Pakistan's comments are found in their entirety, without attachments, in Appendix II.

# AUDIT FINDINGS

## Poor Program Design Led to Inefficiencies

Chapter 304 of USAID’s Automated Directives System (ADS) provides guidance for selecting the proper implementation instrument for USAID awards. ADS 304.3.1 states that USAID must use a contract when USAID will be actively directing the awardee’s performance. ADS 304.3.2 stipulates that indications that the award requires a contract include situations in which USAID intends to exercise a considerable amount of operational control—i.e., performing day-to-day oversight and providing technical direction—which would be inappropriate under a cooperative agreement.

Contrary to this guidance, the audit noted that USAID/Pakistan exercised a substantial degree of control over the program that would have been more appropriate for a contract rather than a cooperative agreement. For example, work plans had to be prepared by the implementer and approved by the mission quarterly. Also, all proposed activities had to be approved by the mission before implementation. Although the program was awarded under a cooperative agreement, both USAID/Pakistan officials and the implementing partner agreed that the program has been implemented more like a contract.

Mission officials commented that the nature of the work assigned to the program has changed drastically since the program’s inception. According to mission officials, the variety, large value, and complexity of current construction activities require the mission to give daily technical directions to the implementer to ensure the quality and timeliness of facilities constructed through the program.

USAID/Pakistan officials agreed that continuing to use the cooperative agreement to implement this program will lead to further delays and inefficiencies, particularly on large infrastructure activities that are ongoing or in the program’s work plan (Table 1). Mission officials do not believe that the award recipient has demonstrated the technical capacity to provide the required monitoring and oversight on the activities listed in the table.

**Table 1. Large Construction Projects Requiring Continual Oversight**

<b>Project</b>	<b>Budget (\$ million)</b>
Rehabilitation and expansion of the Ministry of Population Welfare’s central warehouse for family planning commodities in Karachi	2.7
Solicitation and construction of the Obstetrics and Gynecology (OB/GYN) Department, Jinnah Post Graduate Medical Center in Karachi	3.8
Restoration of Lady Willingdon Hospital in Lahore (tentative cost estimate)	5.3
Restoration of the civil hospital in Jacobabad (tentative cost estimate)	2.5
<b>Total</b>	<b>14.3</b>

Restrictions placed on the mission under the cooperative agreement have greatly reduced the efficiency of providing this technical direction. For example, mission officials commented that under the provisions of the cooperative agreement, USAID/Pakistan must work with the program's prime implementing partner. The program's implementing partner is operating as a middleman through which USAID/Pakistan gives technical direction and guidance to the implementing partner's subcontractors, which account for 70 percent of the award budget. These subcontractors then further subcontract the completion of the construction work to local companies. The effect is two layers of construction oversight. Although the implementing partner, according to the mission, is capable of producing assessments, conducting feasibility studies, and overseeing small-scale reconstruction activities, the implementing partner does not have the staff or technical expertise to monitor subcontractors' management of the larger construction projects effectively.

Duplicate layers of construction oversight are not only inefficient but also costly. Both the prime recipient and subcontractors are permitted to charge indirect costs and fringe benefits to the program. Subcontractors are also permitted to charge fixed fees to USAID/Pakistan. Our review noted that over \$42 million, or 28 percent of the total \$150 million program, is budgeted for these costs. The audit also found that individual construction activities have high construction management costs compared with actual construction costs. For example, the budget for the design and construction of the Karachi warehouse and for the OB/GYN Department at Jinnah Post Graduate Medical Center totaled \$6.8 million. However, the total construction cost contracts awarded for these facilities totaled only \$4.9 million. The remaining cost of \$1.9 million, or 28 percent of the total budget, is for management and oversight of the construction contract. According to the mission, this is considerably higher than the rate for typical construction projects.

On May 17, 2011, the mission notified the program's implementing partner that USAID would be restructuring the program to prevent further program delays and inefficiencies. USAID believes that excluding large-scale construction projects from the program will allow the cooperative agreement to function within the capabilities and capacity of the program staff and will ensure that small-scale construction and other activities are undertaken effectively. Although the mission has taken steps to address this deficiency, we make the following recommendation.

***Recommendation 1.** We recommend that USAID/Pakistan evaluate the implementing mechanism for the program and determine how to restructure it to realize efficiencies in program implementation.*

## **Targets Were Not Revised to Reflect Program Focus**

According to ADS Chapter 203, "Assessing and Learning," technical offices should set performance targets that are ambitious but can realistically be achieved within the stated time frame and with the available resources. In addition, USAID's Performance Monitoring and Evaluation TIPS No. 8, "Baselines and Targets," states that 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.

Although the audit found that the mission had complied with this guidance by setting performance targets, USAID/Pakistan considered the targets merely “illustrative.” Further, the audit found that the mission, having concluded that CRISP is not a coherent program with a predetermined set of activities and results, decided that using the targets to measure program results was not appropriate.

The performance monitoring and evaluation plan submitted by the implementer contained a number of specific indicators and concrete targets as required by USAID/Pakistan. The targets included in the plan were to be finalized within 3 months of signing the agreement, with the plan clearly describing linkages between the activities and expected results. Table 2 highlights a few of these indicators and targets.

**Table 2. Selected Program Indicators and Targets**

<b>Indicator</b>	<b>Target</b>
Completed school projects transferred to the community	2,000
Completion and transfer of expanded school facilities for girls	1,000
Completed health-care facilities transferred to the community	48
Renovation of water systems bringing water to rural poor	328
Jobs generated by project activities	4,599,750

The audit found that the plan was not finalized or approved by USAID/Pakistan. According to USAID/Pakistan officials, plan targets were completely unrealistic, resulting from the mission’s uncertainty at the beginning of the program as to what could be accomplished. In addition, strategic shifts in the mission created confusion about the direction of the program and diverted attention from designing and implementing programs to achieve results. The implementing partner submitted an updated plan on February 28, 2011, 2 years after the program started. USAID/Pakistan had not yet approved this updated plan.

Mission officials stated that CRISP is essentially a crosscutting program that provides infrastructure support to programs implemented by various technical offices in the mission, such as health, education, economic growth, and democracy and governance. Mission officials stated that it would be the responsibility of these teams to establish targets and to measure the desired outcomes. According to mission officials, the program, by design, does not have a predetermined set of activities and results; therefore, CRISP needs a unique approach to its performance monitoring plan.

We agree that a unique approach is required for CRISP. However, the continued lack of targets undermines management decision making and hinders evaluation. As an example, one of the activities under CRISP includes \$3.1 million in capacity-building assistance for the Government of Pakistan’s Communication and Works Department (C&W). The government requested technical assistance for C&W after determining that C&W did not have sufficient capacity to carry out design and supervision of school construction projects in the province of Khyber Pakhtunkhwa. However, without clearly defined targets, it is unclear how the mission will assess the success of this capacity-building effort.

Mission officials informed us that they are revising the CRISP performance management plan, which will include targets for measuring results. To ensure that the program activities support the achievement of the targets established by the mission, we recommend the following.

**Recommendation 2.** *We recommend that USAID/Pakistan establish performance indicators and targets for each activity implemented by the Community Rehabilitation Infrastructure Support Program, and document that the results of these activities are included in the mission's performance management plan.*

## **Sustainability Analysis Was Not Done for All Activities**

Under the cooperative agreement, the implementer submitted a summary of each planned CRISP activity to USAID/Pakistan for review and approval before implementing any activity. For all construction activities with budgets exceeding \$1 million, the mission prepared a sustainability analysis before approving and funding the activity.<sup>1</sup> However, for activities budgeted at less than \$1 million, the mission did not analyze the potential recipients' financial and human resource capacity to maintain and utilize the project. For example, no sustainability analysis was prepared for any of the university or career center rehabilitation projects, or for the activity that provided furniture and equipment to the Khyber Institute of Child Health in Peshawar.

The disposition of approximately \$900,000 in furniture and equipment to support the institute's pediatric teaching, training, and research facility highlights the importance of addressing the sustainability of all CRISP infrastructure activities. Soon after USAID/Pakistan delivered the furniture and equipment to the institute, the mission learned that, because of budget shortfalls, the furniture and equipment would not be put to use by the agreed-on date. USAID/Pakistan officials wrote to an official with the Government of Khyber Pakhtunkhwa's Department of Health, expressing the mission's concern about this project and noting that USAID supplied the equipment and furniture with the understanding that they would be made operational by July 2010.

Our site visit in May 2011 to the institute confirmed that most of the equipment delivered in June 2010 remained in storage and had not been used. As a result, the staff had not been trained to use the equipment. In fact, the institute had not begun to teach or conduct research. The director stated that the institute did not have the funding to support the operations of the facility, adding that it could not even pay the monthly utility bill.

Both implementing partner and mission officials agreed that they should have determined that the institute was fully functional before purchasing and delivering the furniture and equipment. Mission officials commented that the procurement of the furniture and equipment prior to ensuring the recipient had the capacity to use and maintain it resulted from poor communication and coordination among the various technical offices of USAID/Pakistan. By not ensuring that the institute was viable, the mission spent over \$900,000 that could have been put to better use. To address this deficiency, we recommend the following.

**Recommendation 3.** *We recommend that USAID/Pakistan develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health.*

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<sup>1</sup> To comply with the Foreign Assistance Act of 1961 as amended (FAA 611(e)) (codified at 22 U.S.C. 2361(e)) for any construction activity that exceeds \$1 million, the mission director must certify that the country has the capacity (both financial and human resources) to maintain and utilize the project effectively.

**Recommendation 4.** *We recommend that USAID/Pakistan revise the activity approval process to include a sustainability analysis for all infrastructure activities implemented under this program, regardless of the funding level.*

## **Mission Lacked Procedures to Verify That Funding Is Not Used for Religious Institutions**

Title 22 of the Code of Federal Regulations, Part 205, “Participation by Religious Organizations in USAID Programs,” states that USAID funds may not be used for the acquisition, construction, or rehabilitation of structures to the extent that those structures are used for inherently religious activities (Section 205.1(d)).

Under CRISP, USAID/Pakistan is funding the Infrastructure Support and Capacity Development Project.<sup>2</sup> The purpose of this activity is to provide support to the Government of Khyber Pakhtunkhwa for the construction of U.S. Government-funded infrastructure. The activity provides for on-site assessments and construction supervision, among other things. This activity provides support to over 100 schools in the region. In reviewing the list of schools receiving USAID/Pakistan support, the implementing partner disclosed that one of the schools in the Swat District was listed as a government religious institution. In addition, a draft document prepared by the implementing partner stated that the United States is committed to rebuilding the educational institutes in the area and “religious institutions are part of the project.” A Government of Pakistan official stated that this particular school will have a curriculum prepared by the government, but its focus will not be only religion. Because the school has not yet opened, we cannot confirm the authenticity of this statement.

Our discussions with the implementing partner, a review of the content of the draft promotional material, and the fact that the implementing partner was providing oversight for an institution it believed offered religious education indicated implementing partners were unaware of USAID’s policy prohibiting the funding of religious institutions. Discussions with USAID/Pakistan officials confirmed that it would be beneficial to add procedures to verify that funding for school reconstruction or oversight is not provided to religious institutions.

Funding for religious institutions is a violation of 22 CFR 205.1(d) and could divert resources from other allowable purposes under the program. Therefore, we make the following recommendations.

**Recommendation 5.** *We recommend that USAID/Pakistan review the list of all educational institutions receiving assistance with construction supervision under the program’s Infrastructure Support and Capacity Development Project to determine whether any are religious institutions, and recover any costs deemed unallowable.*

**Recommendation 6.** *We recommend that USAID/Pakistan develop and implement a plan to increase awareness among mission and implementing partner staff of USAID’s policy prohibiting the funding of religious activities.*

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<sup>2</sup> The total budget for the Infrastructure Support and Capacity Development Project is \$3.1 million; however, expenditures are not disaggregated by school.

## Internal Control for Activity Approval Was Bypassed

According to ADS Chapter 201, “Planning,” all program-funded activities must be documented through an acceptable Activity Approval Document. The Activity Approval Document certifies that appropriate planning has been completed for the activities in question. On July 3, 2008, the USAID/Pakistan mission director approved the CRISP Activity Approval Document. The document established an important internal control, stipulating that while most of the projects undertaken are expected to be less than \$100,000, with an upper limit of \$500,000, any project in excess of \$500,000 must have written approval from the Mission Director.

The audit found that while the mission director who signed the Activity Approval Document was in Pakistan, no activities were implemented that exceeded the \$500,000 threshold. However, when a new mission director took over, the mission implemented six projects each exceeding the \$500,000 threshold and totaling approximately \$13 million without first obtaining the mission director’s approval. Table 3 details the projects.

**Table 3. Projects With Budgets Greater Than \$500,000 That Lacked the Mission Director’s Approval**

Project	Budget (\$ million)
Procurement of furniture and equipment for the Khyber Institute of Child Health in Peshawar	1.0
Infrastructure support and capacity development of the Communication and Works Department in Khyber Pakhtunkhwa	3.1
Rehabilitation and expansion of the Ministry of Population Welfare’s central warehouse for family planning commodities in Karachi	2.7
Construction of the OB/GYN Department, Jinnah Post Graduate Medical Center in Karachi	3.8
Feasibility study and transaction advisory services for the roads sector master plan 2010, Finance Ministry, Government of Sindh	1.3
Jacobabad water, sanitation, environmental, and solid waste systems	0.6
<b>Total</b>	<b>12.5</b>

USAID/Pakistan officials commented that the mission director in charge when these activities were submitted for approval did not want to approve them; as a result, the mission established a de facto policy to bypass this step. However, the de facto policy was never documented, and the current mission director was unaware of it. Consequently, the mission bypassed an important internal control and approved nearly \$13 million for activities that may not follow the intent of the program’s objective—supporting small to medium-size community infrastructure projects. To address the deficiency, we make the following recommendation.

**Recommendation 7.** *We recommend that USAID/Pakistan determine whether to amend or follow the program’s internal control procedure requiring the mission director’s approval for all activities that exceed \$500,000.*

## **Program Lacked an Approved Marking Plan**

According to the cooperative agreement, the recipient (the implementer) will propose and submit a plan for implementing the marking provisions in the agreement within 60 days of the effective date of the agreement. The agreement also specifies that the plan should describe what type of deliverables will bear the USAID identity and describe the location of the marking.

The audit found that the implementer did submit a plan; however, mission officials rejected it, noting that it gave the implementing partner's security manager too much discretion to decide whether activities would include the required USAID identity. USAID correctly noted that the authority to waive this requirement rests only with USAID/Pakistan's mission director. Further, on September 17, 2010, the mission director notified all implementing partners of the critical importance of publicizing the mission's partnership with the Pakistani people. Mission officials also stated that they reminded the implementer that compliance with USAID's branding and marking policies is mandatory and warned that failure to submit this information would be considered noncompliance with the terms and conditions of its agreement. The implementer did not respond to USAID/Pakistan's request to submit a revised plan.

Notwithstanding the lack of an approved plan, mission officials did provide pictures taken at two career centers, one of the university rehabilitation projects, and the Karachi warehouse showing plaques that identified the structures as provided by the American people; however, during our site visit to Punjab University in Lahore, there was no signage indicating that this was a USAID-funded project. In addition, required marking was not evident at the Khyber Institute of Child Health to indicate the furniture and equipment there were provided by the United States.

As a result of the lack of an approved marking plan and the absence of marking at the Punjab University and Khyber Institute of Child Health, opportunities have been lost to raise public awareness of USAID-funded projects to improve the U.S. Government's image among the Pakistani people. Although the mission has taken steps to remind its implementing partner of the importance of submitting a revised plan, we make the following recommendation.

***Recommendation 8.*** *We recommend that the mission obtain an updated marking plan from the implementing partner within 90 days, and implement a plan to monitor the status of the implementing partner's marking plan.*

## **Cost-Sharing Contributions Were Questionable**

According to the CRISP cooperative agreement, the program is to encourage substantial local participation to cover project capital costs. Communities were expected to raise and commit \$37.5 million or 25 percent of the total cost as part of their agreement and to provide a sustainability plan to manage and maintain infrastructure projects.

On March 24, 2011, USAID/Pakistan decided that the \$37.5 million cost-sharing contribution should no longer be required. Mission officials stated that expectations for CRISP when the cooperative agreement was signed were quite different from what they are today and the assumed long-term social mobilization and engagement in the target communities is no longer

part of the program's activities. USAID/Pakistan stated that it would allow the implementing partner to work on a case-by-case basis to look for cost-sharing contributions in all activities.

The audit disclosed that the cooperative agreement had not been modified to reflect the decision by the mission to waive the cost-sharing requirement. The audit also found that as of March 31, 2011, the implementing partner reported \$4.7 million in cost-sharing contributions by beneficiaries, the majority—\$4.6 million—for the following three projects:

- Expansion of the family planning central warehouse in Karachi—\$2,420,000.
- Procurement of furniture and equipment for the Khyber Institute of Child Health—\$1,241,625.
- Construction of the OB/GYN Department at Jinnah Post Graduate Medical Center—\$922,704.

For all three activities, the mission believed that cost-sharing contributions based on the fair market value of the land associated with each of the facilities were acceptable. However, it is our opinion that unless the implementing partner owns the land or have by their efforts arranged for USAID/Pakistan to use the land at no cost to USAID, the cost-sharing contributions cannot be supported and therefore should be considered ineligible.

For example, the \$2.4 million claimed for the warehouse in Karachi was based on the fair market value of the land where the warehouse is being expanded. However, the land had not been donated by the Government of Pakistan to the implementing partner. For the Khyber Institute of Child Health, the implementing partner submitted a cost-sharing contribution again based on the total value of the land and of renovation and development work done; however, since USAID funding for this project consisted solely of procuring approximately \$900,000 in furniture and equipment, land on which the institute sits and renovation to the institute were unrelated expenses, and again the land was not the implementing partners' to donate. The same conclusion applies to the \$922,704 submitted as a cost-sharing contribution to the Jinnah Post Graduate Medical Center.

The cooperative agreement has not been modified to reflect the mission's decision to waive the implementing partner's cost-sharing contribution. To ensure that sustainability remains a focus of the program, we believe that, rather than eliminating the cost-sharing requirement from the agreement, the mission should allow cost-sharing contributions to infrastructure projects on a flexible, case-by-case basis. Therefore, we make the following recommendations.

***Recommendation 9.*** We recommend that USAID/Pakistan modify the cooperative agreement to require that cost-sharing contributions for all activities be calculated on a flexible, case-by-case basis.

***Recommendation 10.*** We recommend that USAID/Pakistan notify the program's implementing partner that the previously submitted cost-sharing contributions totaling \$4.7 million are ineligible, and amend the program's financial reports.

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with all recommendations included in the draft report. Having evaluated the mission's response to the draft report and supporting documentation, we determined that final action has been taken on two recommendations, and management decisions have been reached on the remaining eight recommendations. The status of each of the ten recommendations is shown below:

- Final action—Recommendations 1 and 2.
- Management decision—Recommendations 3, 4, 5, 6, 7, 8, 9, and 10.

Recommendation 3. The mission agreed with the recommendation. The mission will develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health by October 31, 2011.

Recommendation 4. The mission agreed with the recommendation. The mission will revise the CRISP activity approval process to include a sustainability analysis/plan for all infrastructure activities implemented under this program, regardless of the funding level, by October 31, 2011.

Recommendation 5. The mission agreed with the recommendation. The mission is obtaining further details on all educational institutions receiving assistance with construction supervision under the Infrastructure Support and Capacity Development Project. This information will be analyzed to determine whether any adjustments to programs, or recovery of unallowable costs, are warranted. The mission will convey these results to OIG/Pakistan under a separate memorandum on or before September 15, 2011.

Recommendation 6. The mission agreed with the recommendation. USAID/Pakistan, in coordination with the USAID/Washington Office of General Council, will develop and conduct training sessions for contracting and agreement officers' technical representatives regarding legal prohibitions including funding of religious activities. The mission will also instruct implementing partners to contact USAID for guidance if they suspect that a potential problem with funding religious institutions may arise. The mission's training sessions will be developed and ready for implementation on or before October 31, 2011.

Recommendation 7. The mission agreed with the recommendation. Because funding is approved in the Activity Approval Document, the mission has decided to delete the procedure requiring the mission director's approval for all activities exceeding \$500,000 and will formalize this change in an action memo by October 31, 2011.

Recommendation 8. The mission agreed with the recommendation. USAID/Pakistan has obtained a revised marking plan from the implementing partner and expects to finalize the plan by October 31, 2011. Moreover, a mission-wide monitoring and evaluation contract was recently awarded. This contract includes responsibilities for the contractor to monitor the compliance of all implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements.

Recommendation 9. The mission agreed with the recommendation. The mission will modify the cooperative agreement to allow cost-sharing contributions on a flexible, case-by-case basis. The mission expects the modification to be issued by October 31, 2011.

Recommendation 10. The mission agreed with the recommendation. The mission will issue a modification to the cooperative agreement by October 31, 2011, removing the rigid cost-sharing contribution requirement. The program's financial reports shall also be amended.

We consider that management decisions have been reached on Recommendations 3, 4, 5, 6, 7, 8, 9, and 10. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

The mission's written comments on the draft report are included in their entirety, without attachments, as Appendix II to this report.

# SCOPE AND METHODOLOGY

## Scope

We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>3</sup> 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 Community Rehabilitation Infrastructure Support Program was achieving its main goal of constructing and renovating community infrastructure to improve the delivery of basic human services such as education, health care, water supply, sanitation, electricity, and transportation, as well as to promote economic growth in rural areas of Pakistan. No previous audits addressed the areas reviewed.

The audit covered CRISP from February 2009 through March 31, 2011. The program started on February 2, 2009, and is to end on February 1, 2014. As of March 31, 2011, USAID/Pakistan had obligated \$41.9 million and expended approximately \$16.9 million on the program.

We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to USAID/Pakistan's program, including Automated Directives System Chapters 201, 204, 303, and 320 and supplemental guidance. The audit relied on the following sources of evidence: the cooperative agreement; interviews with officials from the implementing partner, the Government of Pakistan, and USAID/Pakistan; and documentation maintained at the mission. Audit fieldwork was performed at the USAID/Pakistan mission and the implementing partner's main program offices in Islamabad from April 6 through June 7, 2011.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage CRISP and to ensure that USAID/Pakistan provided adequate oversight of program activities. These controls included maintaining regular contact with the implementing partner and reviewing project files.

## Methodology

To answer the audit objective, the audit team interviewed officials at USAID/Pakistan, the Government of Pakistan, and the implementer's main country office to gain an understanding of (1) how the program's goals were established; (2) how performance indicators, targets, and baseline data were established to measure the progress of the program; (3) how the mission ensures the quality of the data reported by the implementing partner; (4) how the mission monitors the implementation of activities; and (5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

In addition, we performed the following audit tests:

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<sup>3</sup> Government Auditing Standards, GAO-07-731G (July 2007 revision)

- Reviewed the cooperative agreement to determine whether it is the appropriate implementing mechanism for CRISP.
- Reviewed and tested the performance indicators, targets, and baselines established to determine their appropriateness and to document progress made.
- Reviewed and tested the procedures established by the mission to monitor and ensure the quality of work of its implementing partner.
- Documented and tested USAID/Pakistan's compliance with mandatory requirements for sustainability, branding and marking, and cost sharing and with the prohibition of providing funding for religious activities.
- Interviewed officials from the mission, the implementing partner, and the Government of Pakistan to gain their input into all of the above audit tests.
- Conducted site visits to two of the activities implemented to verify the existence and status 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 2009 through March 2011, supplemented by interviews with USAID/Pakistan and the implementing partner regarding specific implementation problems reflected in these reports. We also selected two of the eleven completed activities to visit to document their existence and their progress toward stated objectives. The two activities were the (1) procurement of furniture and equipment for the Khyber Institute of Child Health in Peshawar and (2) the expansion and rehabilitation of the Ministry of Population Welfare's central warehouse for family planning commodities in Karachi. According to reports provided by the mission, these two activities accounted for \$2 million out of a total of \$3.4 million, or 59 percent of direct expenditures during the first 2 years of the program.

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 the program has not made tangible progress toward achieving the program's stated goals.

# MANAGEMENT COMMENTS



**USAID** | **PAKISTAN**  
FROM THE AMERICAN PEOPLE

## MEMORANDUM

Date: August 09, 2011

To: Michael Hutchinson  
OIG/Pakistan

From: Andrew Sisson /s/  
Mission Director

Subject: Management Comments  
Audit of USAID/Pakistan's Community Rehabilitation Infrastructure Support Program (CRISP)

Reference: Draft report no. G- 391-11-00X-P dated July 06, 2011

In response to the referenced draft audit report, please find below the management comments on the ten recommendations included therein:

**Recommendation No.1: Evaluate the implementing mechanism for the program and determine how to restructure it to realize efficiencies in program implementation.**

### **Management Comments:**

Mission management agrees with the recommendation and started the process to address the inherent structural inefficiencies of the existing implementation mechanism for construction work over three months ago. In this respect, the cooperative agreement with Winrock International (WI) is being amended to move large/complex construction activities from WI to a direct contract with WI's subcontractor, Camp Dresser McKee (CDM) which is currently managing implementation. The planned date for transfer of these activities from WI to CDM has been determined to be by the end of August, 2011. The Office of Acquisition and Assistance (OAA), Office of Infrastructure & Engineering (OIE) and other technical offices are continuing to work closely with WI to ensure that the transfer of activities takes place by this planned date. All but one of the activities to be transferred from CRISP will be implemented under an IQC agreement with CDM. The remaining activity is planned to be implemented under an Architecture and Engineering IQC with local firms that is planned to be awarded in August, 2011. After this transfer, WI will primarily be responsible for activities that include small to medium scale construction/rehabilitation work with an emphasis on community-based interventions, some capacity building, and analysis and studies, all of which were envisaged in the original agreement. By doing this, WI shall be removed as a management layer on the construction or

rehabilitation of large, complex facilities that has in the past hindered communication and critical operational control over construction activities and added additional management cost.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

**Recommendation No. 2: Establish performance indicators and targets for each activity implemented by the Community Rehabilitation Infrastructure Support Program, and document that the results of these activities are included in the mission's performance management plan.**

**Management Comments:**

Mission management concurs with this recommendation. It is important to differentiate between performance (measuring results) and process indicators. With respect to process indicators, the Program Resource Management (PRM) Office noted that CRISP has been reporting a standard set of indicators every quarter; CRISP staff just never made a chart listing out these indicators, but they have now done so. This data is drawn from routine information collected as part of their normal project management. In sum, CRISP and USAID now have a list of process indicators, such as percentage of completion of construction work, which are used for performance management. In all quarterly reports, CRISP is now required to list each activity, the agreed process indicators, progress of last quarter, and cumulative progress to date.

As part of a Mission-wide exercise to report on results generated by implementing partners, PRM has worked closely with the CRISP team and the Mission's technical teams to incorporate results in the Mission's PMP. In reviewing how CRISP activities link to the mission PMP, PRM found nine Mission PMP indicators to which CRISP directly contributes; CRISP is already collecting 8 of these 9 indicators and PRM has added only one qualitative indicator (detailed in Annex- A). To illustrate how CRISP contributes to the achievement of health objectives, construction or rehabilitation of health facilities- JPMC and Jacobabad Hospitals contribute to IR 1.3, Improved Health Facilities, and the indicator is "Number of health facilities constructed/rehabilitated with USAID funds." An illustration is provided as Annex- B.

In addition to above, the Mission plans to start-up an MIS/GIS system called Pak Info in the late summer/early fall. All implementers including CRISP will need to enter information related to performance indicators directly into Pak Info through a web-interface. OAA has been working over the past several months to amend all contracts, grants and cooperative agreements to ensure that all implementing partners submit their performance progress via Pak Info. As a result, all project performance information and project location information will be available to COTRs/AOTRs, PRM and OAPA at any time. This process shall improve overall performance management and reporting as a Mission.

With reference to findings presented in the audit report with respect to this recommendation, the Mission would like to place on record that USG objectives in Pakistan have changed so often and so drastically during the implementation of CRISP to date that CRISP, being a buy-in or demand driven mechanism, was not given the opportunity to deliver the small-scale infrastructure activities included in its original mandate, as described in the program description of its cooperative agreement.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

**Recommendation No. 3: Develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health.**

**Management Comments:**

Mission management agrees with the recommendation. The USAID/Peshawar Office is responsible for the management of this project, and is already in the process of modifying the original arrangements made with their development partners in order to devise and implement an action plan that will best utilize the equipment and furniture provided to the Khyber Institute of Child Health. Local authorities also appear to be taking this problem seriously and are expending significant time and energy to develop a solution within their limited resources. The USAID/Peshawar Office in consultation with OAA will develop and implement its action plan to determine the best use of the equipment and furniture by October 31, 2011.

**Recommendation No. 4: Revise the activity approval process to include a sustainability analysis for all infrastructure activities implemented under this program regardless of the funding level.**

**Management Comments:**

Mission management agrees with the recommendation, and is amending CRISP activity approval process to focus more sharply on sustainability of USAID infrastructure investments. Currently, a summary of each planned CRISP activity has been submitted by WI to USAID for review and approval prior to the commencement of activity implementation. To better address the issue of sustainability, the Mission will add a section to the Activity Plan that requires WI to focus analysis and identify/direct needed resources to ensure the sustainability of infrastructure constructed under CRISP. This will supplement the current Mission system that reviews sustainability of each CRISP infrastructure activity in the 611(e) process. This process requires certification by the Assistant Administrator for OAPA that adequate human and financial resources will be made available to properly operate and maintain USAID-financed infrastructure in the out years. OIE, in consultation with the PRM Office and the Regional Legal Advisor (RLA), plans to revise the CRISP activity approval process to include a sustainability analysis/plan for all infrastructure activities implemented under this program, regardless of the funding level, by October 31, 2011.

**Recommendation No. 5: Review the list of all educational institutions receiving assistance with construction supervision under the program's Infrastructure Support and Capacity Development Project to determine whether any are religious institutions, and recover any costs deemed unallowable.**

**Management Comments**

Mission management concurs with the recommendation to review construction activities relating to religious activities. Under USAID policy, funding can be provided to religious institutions, but only for non-religious activities. USAID funds many faith-based institutions throughout the world, but all of the activities must be secular in nature. The Mission is obtaining further details of all educational institutions receiving assistance with construction supervision under the program's Infrastructure Support and Capacity Development Project. This information is being shared with the Regional Legal Advisor (RLA) for analysis to determine if any adjustments to programs (or recovery of unallowable costs) is warranted on First Amendment grounds. OIE and RLA will work together with OAA, where required, to finalize the management decision for the above recommendation. The management decision will be conveyed to OIG/Pakistan under a separate memorandum on or before September 15, 2011.

**Recommendation No. 6: Develop and implement a plan to increase awareness among mission and implementing partner staff of USAID's policy prohibiting the funding of religious activities.**

**Management Comments:**

Mission management partially agrees with the recommendation, i.e. there is a need to increase awareness among the Mission and implementing partner staff regarding issues related to funding of religious activities. However, rather than delegating this complex analysis to implementers, our preferred approach is to train COTRs/AOTRs on the issues and instruct implementing partners to contact USAID for guidance if they suspect that a potential problem with funding religious institution may arise (analogous to a USAID employee contacting RLA if they suspect that an ethics issue may arise.) The RLA, in coordination with the USAID/W Office of General Council, will develop and conduct training sessions for COTRs/AOTRs regarding legal prohibitions including funding of religious activities. This training program will be developed and ready for implementation on or before October 31, 2011.

**Recommendation No. 7: Determine whether to amend or follow the program's internal control procedure requiring the Mission Director's approval for all activities exceeding \$500,000.**

**Management Comments:**

Mission management agrees with the recommendation. Since funding for CRISP activities is approved in the Activity Approval Document, the Mission has decided to delete this requirement from the CRISP activity approval process. OIE and PRM will work together with RLA, where required, to formalize this change in an action memo to close the recommendation by October 31, 2011.

**Recommendation No 8: Obtain an updated marking plan from the implementing partner within 90 days, and implement a plan to monitor the status of the implementing partner's marking plan.**

**Management Comments:**

Mission management agrees with the recommendation. To assist in the prompt finalization of the marking plan, the Development Outreach and Communications (DOC) Office has provided its comments to WI on a previously submitted CRISP marking plan. Utilizing input of the DOC Office, WI recently submitted a revised plan which is being reviewed by the Mission. The expected date for finalization of the marking plan is October 31, 2011.

Moreover, a Mission-wide Monitoring and Evaluation (M&E) contract has recently been awarded. This contract includes responsibilities for the M&E contractor to monitor the compliance of all implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements as identified in their agreement and ADS 320. Additionally, USAID/Pakistan will be engaging a media support contractor to ensure wider dissemination of information about the range and impact of USAID assistance programs.

**Recommendation No. 9: Modify the cooperative agreement to require that cost-sharing contributions for all activities be calculated on a flexible, case-by-case basis.**

**Management Comments:**

Mission management agrees with the recommendation. OAA will issue a modification to allow cost sharing contributions on a flexible, case-by case basis. Hutchinson/Harmon email of July 26, 2010 is enclosed as Annex C which provides clarification on OIG's intent for cost share flexibility. In this respect, Mission's decision to remove the requirement for rigid cost share contributions has also been communicated to the implementing partner. Agreement Officer's memo dated March 24, 2011 is enclosed as Annex D. Use of flexibility in requiring cost sharing is consistent with ADS 303 Guidance as noted by the agreement officer in his approval memo (Annex-D). The modification shall be issued by October 31, 2011.

**Recommendation No. 10: Notify the program's implementing partner that the previously submitted cost-sharing contributions totaling \$4.7 million are ineligible, and amend the program's financial reports.**

**Management Comments:**

The Mission management agrees with the recommendation. As mentioned in response to recommendation no. 9 above, an amendment to the cooperative agreement shall be issued by October 31, 2011 in which the requirement of rigid cost share contributions shall be removed. Subsequently program's financial reports shall also be amended.

**Annex a/s**

**cc: ASIA/SCAA: Andrew Plitt**

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