OFFICE OF INSPECTOR GENERAL

Competing Priorities Have Complicated USAID/Pakistan's Efforts To Achieve Long-Term Development Under EPPA

AUDIT REPORT NO. G-391-16-003-P
SEPTEMBER 8, 2016

ISLAMABAD, PAKISTAN

Office of Inspector General

September 8, 2016

MEMORANDUM

TO: USAID/Pakistan, Mission Director, John Groarke
Bureau for Policy, Planning and Learning, Assistant to the Administrator, Wade Warren

FROM: Office of Inspector General, Global and Strategic Audits Division Director, Van Nguyen /s/

SUBJECT: Competing Priorities Have Complicated USAID/Pakistan's Efforts To Achieve Long-Term Development Under EPPA (Report No. G-391-16-003-P)

This memorandum transmits our final report on the subject audit. The USAID Office of Inspector General conducted this audit to determine if USAID's programs in Pakistan contributed to the achievement of the development objectives of the Enhanced Partnership with Pakistan Act of 2009. In finalizing the audit report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix VII.

The audit report contains 18 recommendations to help USAID/Pakistan strengthen its program operations. After reviewing information provided in response to the draft report, we determined that the mission has taken final action on Recommendations 6 and 9 and made management decisions on the rest. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

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

CONTENTS

INTRODUCTION

Between 2001 and 2009, more than two-thirds of the U.S. Government's $15 billion in aid to Pakistan was provided as security-related assistance and direct payments to the Government of Pakistan. The Enhanced Partnership with Pakistan Act (EPPA) of 2009 provided for a more balanced approach that does not disproportionately focus on security-related assistance, but rather invests in long-term development to enhance security for both partners.[1] Title 1 of EPPA enacted on October 15, 2009, authorized $7.5 billion over 5 years for civilian assistance.[2] As of September 30, 2014, Congress had appropriated $4.5 billion, of which USAID/Pakistan received $3.9 billion and, as of September 30, 2015, had subobligated $2.7 billion and disbursed $1.8 billion.

Given the political significance and funding amount involved, the act provided funds to establish a USAID Office of Inspector General (OIG) staff presence in Pakistan to audit, investigate, and oversee the obligation and expenditure of appropriated funds. OIG in Pakistan conducted this audit to (1) determine whether USAID/Pakistan's implementation of programs contributed to achieving the act's development-related objectives and (2) identify the flow of funds during the 5-year EPPA appropriation period and assess internal controls over functions that affect the ability to achieve intended program results. While the U.S. Government weighs a number of foreign policy objectives in its engagement with Pakistan, this report focuses on the effectiveness of USAID/Pakistan's programs and activities in meeting the intent of the act as it relates to development programs and activities.

To conduct our work, we interviewed mission staff and other U.S., international, and Pakistani stakeholders; received self-reported data from mission officials; summarized OIG's prior program and financial audits and investigations; analyzed the mission's strategic planning, staffing, and monitoring and evaluation; and tested a random selection of procurement activities. In addition, we followed up on prior OIG audit recommendations designed to minimize risk. We conducted our work in accordance with generally accepted government auditing standards. Appendix I presents our scope and methodology.

SUMMARY

USAID's programs have not achieved EPPA's development objectives for Pakistan, notwithstanding the mission's self-reported accomplishments. About 30 percent of EPPA-funded awards that we previously audited—which covered roughly one in 10 of the mission's awards—did not meet intended goals, and another 55 percent did so only partially. In general, the mission experienced long delays, and reported accomplishments lacked sustainability required for long-term development. Several obstacles hindered USAID's efforts to achieve the act's long-term development goals:

- EPPA gave the lead role for assistance activities to the State Department, making it responsible for budget and project decisions. However, the State Department and USAID/Pakistan had competing priorities, and ultimately USAID/Pakistan had to integrate its long-term objectives with State's shorter-term priorities.

[1] Public Law 111-73, 2009.
[2] Title I of the act addresses civilian (development) assistance; Title II addresses security assistance to Pakistan; Title III addresses strategy, accountability, monitoring, and other provisions.

- A country development cooperation strategy for achieving targeted outcomes—a USAID requirement for all bilateral missions—was not established. Instead, USAID/Pakistan followed a strategy developed by the State Department, as directed by the act. State's initial strategy lacked long-term development outcomes and goals. With USAID's assistance, State revised its initial strategy to include activities for addressing development challenges, but it still lacked a long-term development goal. In 2013, USAID/Pakistan implemented a strategic framework that linked activities to a long-term development goal, but lacked indicators for measuring progress against its high-level goal. However, State Department priorities for energy and stabilization took precedence over other development priorities for economic growth, education, and health.

- Roles for reconciling State's short-term programming and USAID's long-term objectives were not defined.

- While USAID/Pakistan developed a risk-reduction strategy for complying with both a USAID requirement to assure organizations have the capacity to manage USAID funds and programs, and a State Department requirement to channel half of USAID's development procurements through governmental and nongovernmental Pakistani organizations, it was not effectively implemented.

Moreover, the surge in EPPA funding outpaced the mission's ability to effectively design and award projects. USAID/Pakistan's annual budget almost tripled between fiscal years (FY) 2008 and 2009, from $407 million to $1.1 billion—supplemented in large part through EPPA.[3] Insufficient staff resources and tensions in Pakistan further slowed programming, creating a $1.9 billion pipeline of unexpended funds,[4] part of which the Congress could commandeer for other pressing needs. In addition, the mission lacked the internal controls needed to reduce program risks associated with the significant number of awards to local organizations, implement large infrastructure projects, and address limitations on monitoring programs in insecure areas. Specifically, USAID lacked adequate internal controls to (1) promptly correct deficiencies identified in preaward assessments, (2) address poor program performance, (3) support implementation of recommendations, (3) substantiate costs in its agreements with the Pakistani Government, (4) establish clear roles and responsibilities in its three provincial offices, and (5) ensure procurements comply with requirements. Ultimately, these weaknesses reduced the effectiveness of the mission's measures and needlessly increased costs.

We are making recommendations to clarify USAID's role for development in conflict-affected and fragile countries, where it follows the State Department's lead. We make other recommendations addressing weaknesses in the mission's risk-reduction activities and internal controls.

BACKGROUND

Pakistan faces many development challenges due to ongoing internal and external political tensions, natural disasters, and other factors (listed in appendix II). In 2011, official unemployment was 5.6 percent and more than half the population—almost 90 million people—

[3] USAID/Pakistan budget analyst provided the budget figures.
[4] Automated Directives System 602 defines a pipeline as "The amount of funds obligated but not expended; the difference between cumulative obligations and cumulative expenditures, including accruals."

was living on less than $2 a day. About one-third of the population has no access to electricity. Pakistan spends about 2 percent of GDP on education, and the literacy rate in rural areas is less than 50 percent. Government spending on public health in 2011 was about 0.5 percent of GDP. Pakistan is the sixth most populous country in the world; at its current rate of growth its population is expected to almost double by 2050. According to USAID/Pakistan, this growth could overwhelm an already overloaded infrastructure and undermine gains in energy, education, and economic growth, which could further exacerbate the country's insecurity.[5]

From 2001 to 2009, more than two-thirds of U.S. aid to Pakistan was security related and cash payments. EPPA provided for a more balanced approach that also focuses on promoting democracy and the rule of law; economic prosperity; and long-term development and infrastructure, including health care, education, water management, and energy programs. (Appendix III lists activities proposed under Title I.) The act also encouraged working through governmental and private Pakistani organizations to deliver assistance and working with local leaders to build their capacity.

The State Department and USAID each have a role in implementing the act's provisions:

- EPPA required the State Department to submit a development strategy and Congress supported the State Department's lead through funding the program with Economic Support Funds, which the State Department controls and USAID implements.[6]

- Subsequently, the September 2010 Presidential Policy Directive 6 recognized the need for integrating development, diplomacy, and defense efforts to meet foreign policy challenges. As required by the act, the State Department submitted its Pakistan Assistance Strategy Report, laying out three goals and specific programs to address them and specifying the funding amounts for each. Three broad categories of U.S. civilian assistance included (1) High Impact, High Visibility Infrastructure Programs, (2) Focused Humanitarian and Social Services, and (3) Government Capacity Development.

- In 2009, the State Department created a new position, the Special Representative for Afghanistan and Pakistan (SRAP), to coordinate all U.S. Government efforts to meet U.S. strategic goals in the region. In addition, the State Department appointed an ambassador as the economic assistance coordinator in Pakistan to supervise all assistance to the country. The office that ambassador headed, known as ASSIST, acted as an interface between the SRAP and USAID/Pakistan.

- USAID/Pakistan's role was to implement programs funded through Economic Support Funds. USAID's Office of Afghanistan and Pakistan Affairs (OAPA), created in 2009, provided technical support, analysis, and resource management to the countries' programs.

As of September 30, 2015, there were 231 activities funded in whole or in part by EPPA in Pakistan, including energy, stabilization, economic growth, education, and health projects (distributed as shown in figure 1). USAID/Pakistan's reported results for them appear in appendix IV.

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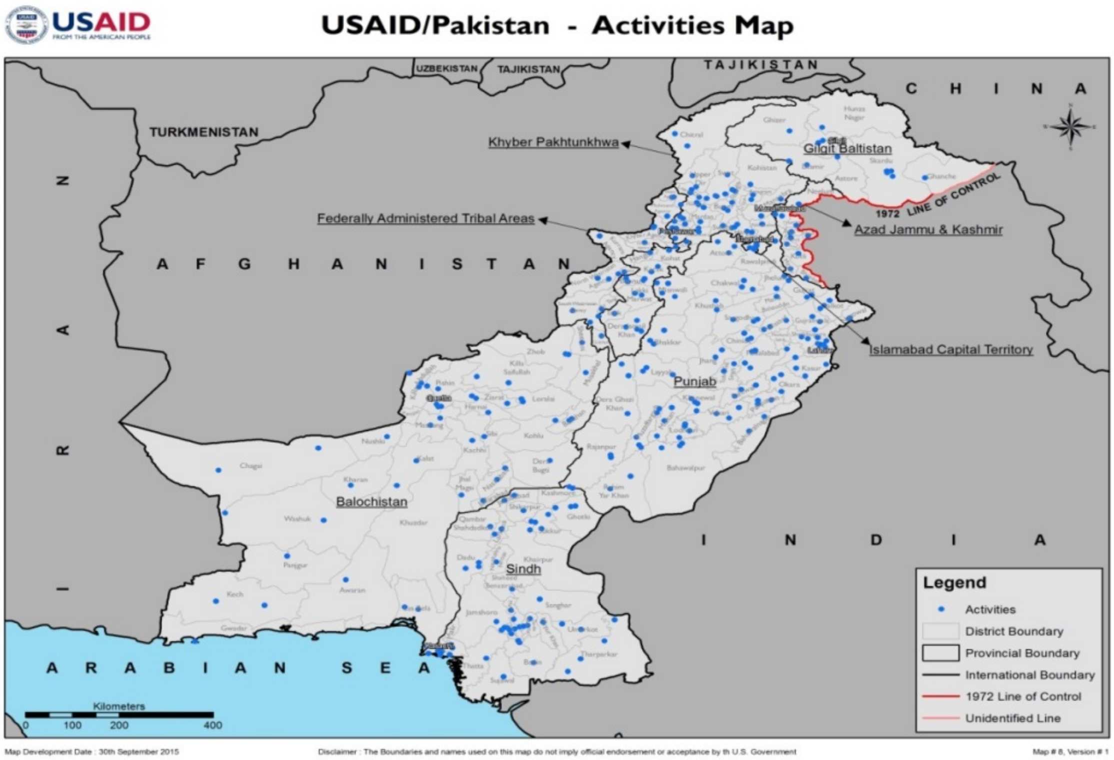
[5] International Crisis Group, "Policing Urban Violence in Pakistan," Asia Report No. 255, January 23, 2013, and David Steven, "Running Out of Everything: How Scarcity Drives Crisis in Pakistan," *World Politics Review*, May 3, 2011.

[6] Economic Support Funds promote the economic and political foreign policy interests of the United States.

Figure 1. Map of USAID/Pakistan's Activities



Source: USAID/Pakistan.

State Department Control Constrained USAID's Ability To Achieve EPPA's Development Objectives

The State Department's mandate to lead efforts in conflict-affected countries has created significant challenges for USAID/Pakistan in implementing EPPA's mandate for long-term development. USAID guidance calls for a results-oriented plan that links activities to specific long-term development goals. However, under the State Department's direction, USAID/Pakistan did not develop a strategic development plan, and subsequent USAID/Pakistan efforts at a strategic framework lacked indicators for measuring progress against its high-level goal. USAID/Pakistan's efforts to include health and education initiatives were overshadowed by the State Department's focus on energy and stabilization. In addition, before USAID could develop guidance on government-to-government assistance, the State Department required USAID/Pakistan to implement 50 percent of awards through Pakistani public and private organizations. USAID/Pakistan received a compliance waiver in 2013 and, because its assessment of Pakistan's eligibility for such assistance was not approved, USAID/Pakistan requested a new waiver in late 2015, as the 2013 waiver was expiring. Despite USAID/Pakistan's efforts to work within State's mandate, the purpose of EPPA—to support Pakistan's long-term development as an investment in security for both Pakistan and the United States—may not be achievable.

State's Short-Term Focus Did Not Advance USAID's Development Objectives

The 2010 Quadrennial Diplomacy and Development Review for cooperation between State and USAID stipulates that the State Department will lead "operations responding to political and security crises"; 531 (b) of the Foreign Assistance Act also states, "The Secretary of State shall be responsible for policy decisions and justifications for economic support programs … in cooperation with the Administrator of the agency primarily responsible for administering part I of this Act [USAID]." The State Department and USAID's U.S. Foreign Assistance Reference Guide states that Economic Support Funds are used to support Section 531 programs. These directives conflict with USAID's Automated Directives System (ADS) guidance requiring staff to follow a rigorously developed plan to achieve long-term development outcomes—a conflict that USAID has been unable to reconcile.

For example, the State Department's budget and programming for shorter-term politically strategic goals conflicted with USAID's longer-term development planning. Even before the State Department issued its initial development plan, the Secretary of State announced a series of high-visibility infrastructure projects intended to improve Pakistani perceptions of the United States, including dams and irrigation systems. These large infrastructure projects were implemented with minimal planning years before USAID identified development goals for EPPA.

The Secretary of State announced another high-visibility project in July 2010—to complete construction of the Satpara Dam. A month later, USAID/Pakistan signed the 611(e) certification attesting to the sustainability of the project and, in January 2011, signed a $26 million agreement with the Government of Pakistan.[7] However, project sustainability was based on projected revenue from a greater energy generation capacity than the dam could produce. The certification did not address the following concerns related to the Satpara Dam:

- Disputed water rights and protection of a wildlife reserve barred access to two critical water sources.

- Tariff collection for the energy produced could only pay salaries—not dam maintenance. Further, the local Gilgit Baltistan Government refused to take over running the dam because it did not have the required expertise.

As of February 2015, Government of Pakistan officials reported that the dam was producing only 39 gigawatt-hours per year—compared with 105 gigawatt-hours per year of electricity the dam was designed to produce—because the dam level was too low for the use of one of its powerhouses, and local people diverted water sources needed to run two other powerhouses. During a December 2015 field visit to the dam, we observed that the water level remained low and two powerhouses were not functioning due to the continued stream divergence by local communities.

[7] Section 611(e) of the Foreign Assistance Act requires agencies that implement capital assistance projects exceeding $1 million to certify that the country where a project is located has the capability "(both financial and human resources) to effectively maintain and utilize the project."

Also in July 2010 the Secretary of State announced another big project. It was to renovate a hospital in Jacobabad, but after determining the hospital was in a state of disrepair, USAID chose to construct a new facility at a cost of $11.2 million. OIG's 2015 audit found that the Jacobabad Institute of Medical Sciences was unlikely to be sustainable because the Sindh Government's proposed operating and maintenance budget was insufficient.[8] In January 26, 2016, USAID extended funding to the hospital for 30 days while the consulate continued to look for sustainable solutions with local entities.

Another State Department initiative was to program 50 percent of development funds through public (government-to-government) and private Pakistani organizations, sometimes at the expense of ongoing programs led by U.S.-based implementers. USAID was concerned because the organizations lacked capacity and there was not sufficient time to build it.

Conflict over development programming arose between USAID and the State Department. USAID/Pakistan staff who opposed the State Department's decisions were sometimes dealt with strongly. According to three USAID staffers, USAID staff were sent out of Pakistan for disagreeing with State Department decisions. As one staffer put it, there is a disconnect between what USAID normally does and what Economic Support Funds are used for. Most of the problems, he said, such as USAID staff being sent home, could have been avoided if people better understood that these funds are not for development.

While the U.S. Government has a number of foreign policy objectives in its engagement with other countries, several independent studies have noted challenges in USAID's ability to implement long-term development in a context in which other objectives may be given preeminence. For instance, scholars with the Center for Global Development wrote:

> Lines of authority over planning and implementing development policy are blurred. . . . Suspicion abounds in Pakistan that the United States' aid spending is driven more by security concerns and objectives than by development best practice. . . . The integration of development, diplomacy, and defense has muddled the development mission and left the program without a clear, focused mandate.[9]

Further, a September 2015 report from the Carnegie Endowment for International Peace questioned USAID's ability to implement sustainable development.[10] The report noted that while foreign aid that helps advance urgent short-term security and political priorities "is administratively and politically convenient, it reduces strategic effectiveness and undercuts long-term development efforts." The report referred to this type of aid as "hard aid" and stated:

> Ultimately, the distinguishing characteristics of hard aid programs lie in their purpose: the achievement of urgent, immediate security and political goals, which have been derived from perceived U.S. strategic interests. A hard aid program may thus externally resemble a development program, but the difference is felt

[8] "Audit of USAID/Pakistan's Activities Related to Jinnah Post Graduate Medical Center and Jacobabad Institute of Medical Sciences," G-391-15-002-P.
[9] Nancy Birdsall, Wren Elhai, and Molly Kinder, Center for Global Development, "Beyond Bullets and Bombs, Fixing the U.S. Approach to Development in Pakistan," June 2011, pp. 4, 12.
[10] Carnegie Endowment for International Peace, "Hard Aid: Foreign Aid in the Pursuit of Short-Term Security and Political Goals," September 2015.

internally by its staff, who are tasked with achieving short-term impact rather than long-term developmental outcomes.

USAID/Pakistan was unable to direct resources solely toward long-term development goals because the State Department controlled EPPA Economic Support Funds.

The Center for Global Development stated that in Pakistan "the United States is pursuing multiple legitimate objectives." It suggested that separating "money spent primarily for long-term development from money spent primarily for diplomatic reasons … or to benefit short-term stability" could permit the State Department's primary control over the latter, leaving the rest of the budget for the USAID mission director to spend based on interventions designed for development impact.

USAID/Pakistan Did Not Have a Country Strategy

USAID/Pakistan did not have a strategic plan, implemented consistently over time, with a goal to achieve long-term development as intended by the act. USAID requires every bilateral mission to create a country development cooperation strategy.[11] However, because the State Department shaped strategic policy for EPPA-funded assistance, USAID/Pakistan did not develop a country strategy (or a transition one).[12] While USAID's Bureau for Policy, Planning, and Learning agreed that ongoing State Department-led strategic planning for assistance to Pakistan could be most effective, USAID does not have guidance for implementing development without a country strategy. Ultimately, conflict between USAID/Pakistan and the State Department arose because of incompatible approaches to implementing development.

USAID/Pakistan followed three evolving strategy documents developed between December 2009 and February 2013, none of which met USAID's development planning requirements. In addition, USAID/Pakistan and the Pakistani Government signed the Pakistan Enhanced Partnership Agreement of 2010 (PEPA), which played an important role in structuring its assistance. While several documents were called "strategies," mission officials acknowledged that they did not have a development strategy. Table 1 outlines the elements of these documents and our observations on their limitations.

[11] According to ADS 201.3.3.2, USAID uses a country development cooperation strategy to define development objectives and maximize the impact of development cooperation. The guidance is based on the September 2010 Presidential Policy Directive on Global Development, as stated by the ADS: "USAID will work in collaboration with other agencies to formulate country development cooperation strategies that are results-oriented, and will partner with partner countries to focus investment in key areas that shape countries' overall stability and prosperity."
[12] Missions operating in conflict-affected or fragile states may choose to do a transition country strategy, with a view to creating the conditions for sustainable development.

Table 1. Documents for Implementing EPPA

Elements	Observations on Limitations
Three-Point State Department Strategy, December 14, 2009	
• Improve Pakistan's capacity to address the country's most critical infrastructure needs through high-impact, high-visibility infrastructure programs ($3.5 billion). • Help Pakistan address basic needs and provide improved economic opportunities in areas most vulnerable to extremism through focused humanitarian and social services ($2 billion). • Strengthen Pakistan's capacity to pursue economic and political reforms that reinforce stability ($2 billion).	• Broad and lacked long-term development outcomes. • Lacked logical links between USAID activities and long-term development goals.
PEPA, September 30, 2010	
• Energy • Economic Opportunity • Agriculture • Democracy and Governance • Federally Administered Tribal Areas (FATA) • Khyber Pakhtunkhwa • Education • Health • Social Assistance	• Categories shifted several times and were revised in August 2014 to reflect the development objectives in the February 2013 mission strategic framework. • Though USAID did not characterize it as a strategy, PEPA obligated EPPA funds into typical aid categories, providing a more traditional development structure than the State Department strategy.
State Department Strategy Papers, February 19, 2011	
Five three- to four-page papers summarized Pakistan development challenges, listed activities to address them, and provided some output indicators: • Energy Strategy • Economic Growth Strategy • FATA/Khyber Pakhtunkhwa Stabilization Strategy • Education Strategy • Health Strategy	• Two of the five strategy papers listed high-level outcomes. For economic growth, assistance would result in an overall growth rate of 6 percent. Health programs would reduce infant mortality by 20 percent nationwide. Lower-level tasks were identified but did indicate accomplishments needed to achieve the outcomes. Lower-level tasks for the health sector included (1) focusing on birth spacing and maternal and child health, including immunizations; (2) supporting provincial governments in developing integrated health programs; and (3) construction of two large hospitals.

Elements	Observations on Limitations
USAID/Pakistan's Five Mission Strategic Framework Development Objectives (DOs),[a] February 2013[13]	
Overall Goal: Increased Stability, Democracy, and Prosperity for the Men and Women of Pakistan • DO 1: Increased Sustainable Energy Supplied to the Economy (Energy) • DO 2: Improved Economic Status of Target Populations (Economic Growth/Agriculture) • DO 3: Increased Stability in Target Areas (Stabilization and Governance) • DO 4: Improved Opportunities for Learning and Work (Education) • DO 5: Improved Maternal and Child Health Outcomes in Target Areas (Health)	While the framework was an improvement over previous strategies and aligned USAID/Pakistan's activities with its stated goals, • It was implemented 3 years into EPPA programming. • USAID staff had to massage some activities to fit the new framework. • It did not contain high-level indicators or targets to measure progress toward long-term development.

[a] Automated Directives System (ADS) 201.3.12.2 states that development objectives are the "most ambitious result that a mission, together with its development partners, can materially affect, and for which USAID will be held accountable to demonstrate impact."

In addition to lacking a workable strategic framework for the first several years of EPPA, the mission was challenged to implement its development objectives under the State Department's direction, which focused on stabilization and energy to develop Pakistan's economy. In a March 2015 interview, the deputy director of the SRAP office stated that the long-term trajectory is stability to support U.S. interests. Additionally, the deputy director stated that priorities are aligned with U.S. national security interests and Government of Pakistan priorities. The State Department focuses on energy, which it considers a core priority of civilian assistance and key to long-term growth.

Accordingly, the Secretary of State announced the provision of $125 million to fund the first phase of a program to repair and upgrade Pakistan's energy infrastructure—even before the State Department released its first strategy.

In 2015, USAID staff we surveyed reported that implementing developmentally sound projects under State Department control was challenging.[14] According to the report, a mission official characterized the design process as one in which "State tells the mission what the project should look like, and then the mission works backward to find developmental reasons to validate it." Such an approach negates the purpose of having a strategy—that is, to have an action plan in place before a program is launched. USAID/Pakistan's development framework was not established until 3 years into the EPPA program cycle. While USAID guidance requires missions to prepare a country strategy with the option to prepare a transitional strategy in conflict countries when a country strategy is not possible, it does not detail how staff should reconcile competing priorities when working under the State Department's lead. According to the report, a number of respondents to our 2015 survey stated that "USAID's policies and

[13] According to mission officials, the mission strategic framework was approved in February 2013. The mission posted an approved framework dated July 30, 2013, on its web page. According to mission officials, it was updated again in April 2014, but 2013 version online does not reflect 2014 revisions.
[14] "Survey of USAID's Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen," Report No. 8-000-15-001-S.

procedures should give missions flexibility in how to respond to the demands of external stakeholders in politically sensitive situations."

USAID/Pakistan Lacked High-Level Indicators for Measuring Progress Toward Its Development Goal

When USAID/Pakistan began implementing EPPA-funded development programs, it could not measure progress toward achieving development goals because it lacked a development strategy. In addition, the mission strategic framework that USAID/Pakistan approved in 2013—"Increased Stability, Democracy, and Prosperity for the Men and Women of Pakistan" (appendix V)—did not set targets, baselines, or time frames for measuring progress toward its high-level goal, nor were programs initiated before 2013 designed to link to the long-term goals.

The Office of Management and Budget requires federal agencies to establish strategic goals that are "supported by performance goals with progress monitored using targets, measures, and timeframes."[15] ADS 203.3.2 similarly requires development teams to "analyze performance by comparing actual results achieved against the targets," emphasizing that such analyses are "critical in determining the progress made in achieving the impacts and outcomes identified in the [country development cooperation strategy]."[16]

A USAID/Pakistan program office official said in January 2015 that the framework had no high-level indicators and that there was a general lack of outcome indicators. The mission planned to revise the framework by February 2015; however, in mid-April 2016, it was still being revised.

We reviewed 22 of the 231 EPPA-funded activities—with budgets totaling $1.3 billion, or more than 43 percent of EPPA funds USAID/Pakistan obligated—and concluded that 32 percent (7) did not meet their intended goals, and 55 percent (12) partially met them (appendix VI). We also identified challenges that prevented many programs from achieving their intended results or program sustainability—including the reprogramming of funds toward disaster and humanitarian assistance, and a lack of capacity among Pakistani implementing partners. The high-visibility infrastructure projects that the State Department announced in 2009 and 2010 exacerbated these weaknesses. For example, we found the following:

- As we reported in January 2015, a provincial government lacked funds to sustain a hospital built with USAID funding. A year later, USAID was still supporting the hospital and searching for a way to make it sustainable.

- A signature energy program produced only 9 percent of its intended products with a 507 percent increase in unit cost.[17]

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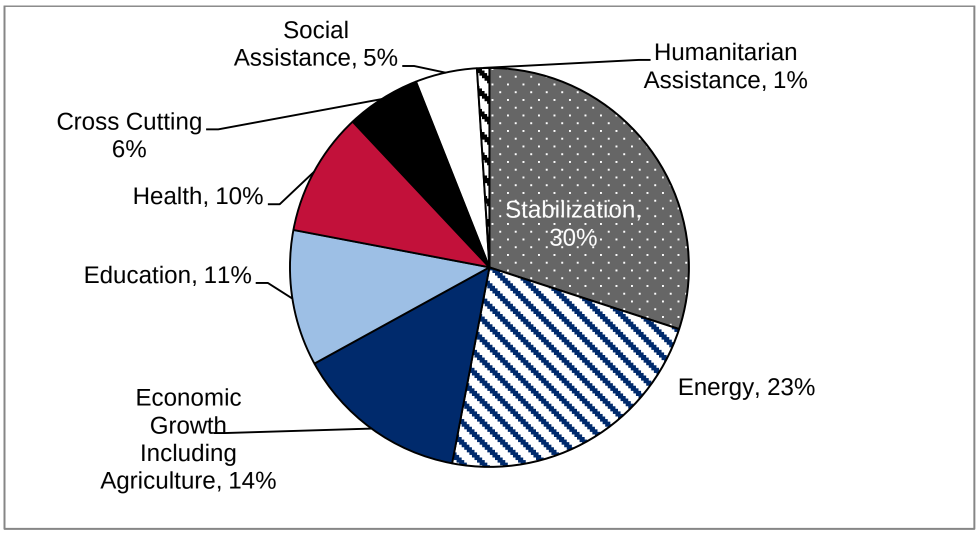
[15] Circular A-11 Part 6, which supplements the Government Performance Results Act Modernization Act of 2010.
[16] ADS 203.3.2.
[17] "Audit of USAID/Pakistan's Energy Efficiency and Capacity Program," Report No. G-391-12-002-P, November 23, 2011.

USAID/Pakistan Did Not Focus on Development Areas Proportionately

EPPA called for a "balanced, integrated, countrywide strategy for Pakistan that provides assistance throughout the country and does not disproportionately focus on security-related assistance or on one particular area or province."

EPPA was designed to implement long-term development, and the act intended a balanced strategy—one that would provide assistance throughout Pakistan. However, more than half of PEPA's State Department-controlled Economic Support Funds were directed toward the State Department's energy and stabilization priorities. Together, energy and stabilization—which generally targets the Federally Administered Tribal Areas (FATA) along the border with Afghanistan and in Khyber Pakhtunkhwa, the northernmost province—received 53 percent of EPPA funds obligated in PEPA (figure 2). Sectors such as health and education received smaller portions of the budget.

Figure 2. Total Obligations in PEPA by Sector, Fiscal Years 2010 Through 2014



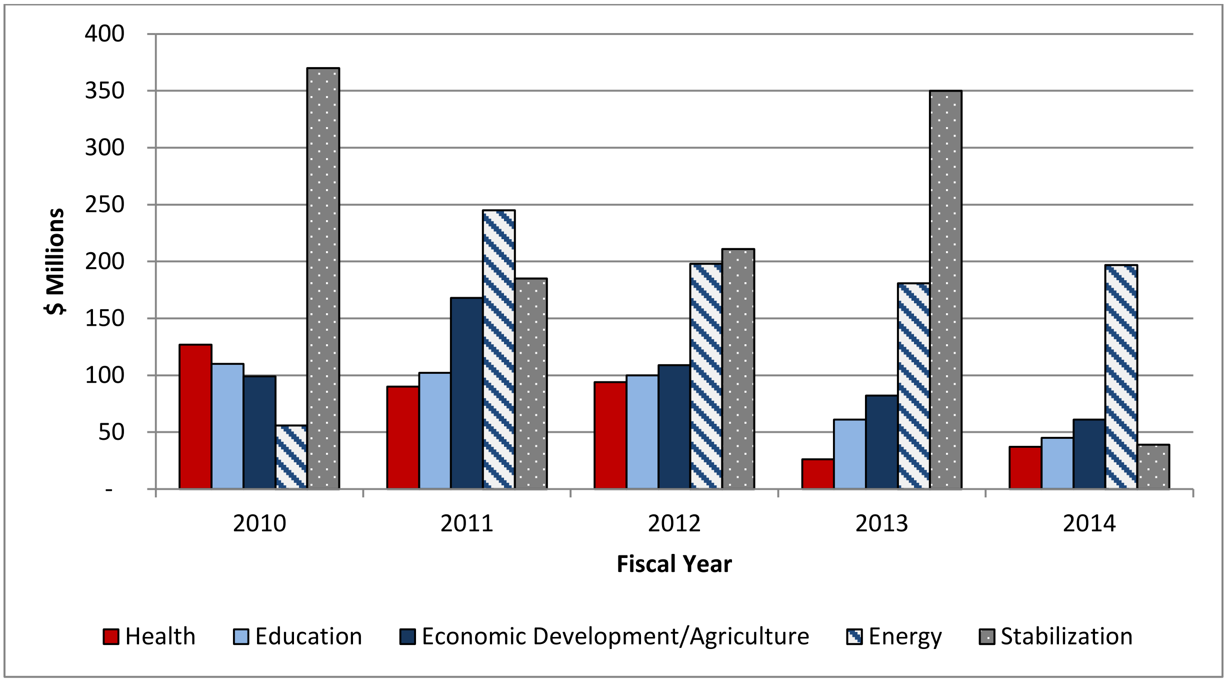
Source: Data provided by USAID/Pakistan's Office of Program Management.
Note: Humanitarian assistance is provided for relief and recovery from natural disasters or conflict; social assistance is cash or in-kind transfers to the poor or to those suffering from temporary shocks.

ASSIST officials noted the discrepancy, recognizing that USAID pushed for social sector projects—health, education, and economic development. One ASSIST official stated that the SRAP does not see how development can be accomplished in a country without security.

With stabilization activities concentrated in FATA and Khyber Pakhtunkhwa—areas the State Department considers safe havens for terrorist groups—a disproportionate amount of funding went to these regions. For fiscal years (FY) 2010, 2011, and 2012, funding for these regions accounted for 81, 82, and 89 percent, respectively, of the combined stabilization funds. (In 2013, USAID changed its categorization of funding, combining democracy and governance with FATA and Khyber Pakhtunkhwa in the stabilization category. While the change better aligned with the development goals in the framework, it made funding less transparent.)

While funding for stabilization dropped off in FY 2014, funding for energy remained stable and continued to overshadow funding for health, education, and agriculture (figure 3).

Figure 3. Annual Obligations by Sector, Fiscal Years 2010 Through 2014 ($ million)



Source: Data provided by USAID/Pakistan's Office of Program Management.

Despite an overall drop in stabilization funding, ongoing emphasis on energy continued to limit the amounts available for the other sectors. For example, in January 2012, the USAID/Pakistan mission director noted that while the State Department wanted to drop economic growth and health altogether, in the end it emphasized agriculture as a major part of the economic growth goal while keeping health a low priority. By July 2015, the reach of the countrywide health program was reduced from four provinces and two independent territories to roughly half of one province (15 of its 29 districts). Even then, the mission did not have funds for nutrition, water, and sanitation—programs USAID/Pakistan deems critical for its health development goal.

To partially mitigate this deficiency, a USAID official stated in July 2015 that $30 million was redirected to contribute to nutrition and sanitation activities of the United Nations Children's Fund and World Food Programme in five districts that overlap with the mission's health program. However, the other 10 districts do not receive the benefit.

Further, when $90.8 million in the pipeline needed reprogramming in June 2014 and the mission director proposed three scenarios for using the funds—two that included maternal and child health, and the third solely for energy—the State Department chose energy. The SRAP explained the decision, stating in a November 24, 2015, letter that energy was the Pakistani Government's priority, and that, "Economists estimate energy shortages reduce Pakistan's annual growth rate by 2 to 4 percentage points." In addition, stabilization assistance largely to the Afghanistan-Pakistan border area "was prioritized both in line with U.S. national security interests and Pakistani requests."

How closely this decision tracks with Pakistan's requests is unclear, however. Vision 2025—the Pakistan Government's plan for its future—states that Pakistan lags far behind its peers in areas such as education, health, and social development.[18] It points out "the UNDP Human Development Report 2013 has ranked Pakistan at 146th out of 187 countries on the [Human Development Index] ranking, which measures health, education and standard of living." It also states: "Overcoming this deficit is the foremost priority of Vision 2025. Since human and social capital development is a prerequisite for all other development, it is the very first of our seven pillars." An official in the Pakistan Government's Economic Affairs Division, cosigner on PEPA, similarly emphasized at a February 2015 meeting that the division is happy with USAID programs in energy and FATA, but would like to see more funding in health and education programs.[19]

USAID/Pakistan Has Not Fully Implemented Guidance on Government-to-Government Assistance

According to ADS 220.3, the Agency follows global best practices to promote country ownership of development, endorsed in global compacts (Accra 2008 and Busan 2011). The central idea is that aid is most likely to catalyze sustained development when it reinforces a country's internally determined development priorities and strengthens the country's systems. The 2008 "Accra Agenda for Action" states, "Successful development depends to a large extent on a government's capacity to implement its policies and manage public resources through its own institutions and systems."[20]

In August 2011, USAID issued ADS 220 to provide guidance to verify would-be partner countries' capacity to manage and be accountable for donor funds provided through country systems. The guidance was updated in 2012 and 2014. For missions contemplating government-to-government assistance, the guidance lays out four steps:

1. Conduct a rapid appraisal of country systems to examine political and security factors, country commitment to transparency and accountability, and determine whether government-to-government assistance is appropriate.

2. If the level of fiduciary risk is acceptable, conduct a risk assessment of partnered organization systems.

3. Develop a plan that identifies the risks of relying on the systems, recommends ways to mitigate the risks, and lays out a monitoring schedule.

[18] "Pakistan 2025, One Nation – One Vision," Planning Commission, Ministry of Planning, Development, & Reform, Government of Pakistan.
[19] Economic Affairs Division, part of the Ministry of Finance and Economic Affairs, is the Government of Pakistan's interlocutor for foreign assistance.
[20] The Accra Agenda for Action grew out of a gathering organized by the Organization for Economic Cooperation and Development in Accra, Ghana, on September 4, 2008. There "developing countries committed to taking control of their own future, donors pledged to co-ordinate better amongst themselves, and all agreed to be more accountable to each other—and to their citizens." https://www.oecd.org/dac/effectiveness/45827311.pdf, accessed on September 6, 2016.

4. Reassess government entities implementing government-to-government projects. Reassessments should occur every 3 years and when the initial commitment to an entity increases by more than 50 percent or by more than $20 million.[21]

In its 2010 corruption index, Transparency International categorized Pakistan as highly corrupt, with a score of 2.3 on its index, with 0 being "highly corrupt" and 10 being "highly clean."[22] However, at the request of the SRAP, USAID/Pakistan began implementing direct assistance through Pakistani country systems in 2009, before USAID issued the ADS guidance. As of September 30, 2015, USAID/Pakistan had obligated $722 million for active government-to-government awards. While the mission conducted risk assessments similar to those ADS 220 requires, up until early 2015 it had not completed a rapid appraisal, the first step in determining eligibility for government-to-government assistance.

The mission sought to comply with ADS through a series of waivers:

- In October 2013, the USAID Administrator signed a 3-year waiver exempting the mission from complying with ADS 220.

- In February 2015, with the waiver expiring in FY 2016, mission officials conducted a rapid appraisal and submitted it to the Agency. However, according to a mission official, the Agency did not approve it, and the mission began preparing a request for an additional 5-year waiver. As of January 19, 2016, the mission was still working on the waiver.

While the waiver brings the mission into compliance, USAID/Pakistan continues to fund government-to-government programs through the Pakistani Government, which might not have been eligible based on ADS requirements.

Surge in Funding Outpaced the Mission's Ability To Design and Award Projects Effectively

The sudden influx of funding that EPPA provided—intended to strengthen Pakistan's long-term development—overwhelmed staff's ability to expedite planning, awarding, and monitoring contracts in an insecure environment. At the same time, staffing shortages, high turnover of U.S. direct hires, complex high-dollar awards managed by local staff with little USAID experience, flawed risk management strategies, and weak contract management controls put funding at risk of mismanagement and waste. Ultimately, the staff's difficulty in managing the rapid funding surge resulted in a pipeline of obligated but unspent dollars, leading a State Department official to rescind some of the funds.

Flow of Funds

Congress appropriated $4.5 billion of the $7.5 billion authorized funding over the 5-year EPPA period. Figure 4 breaks down the following allocations:

[21] The 2014 ADS revised the 3-year requirement to the duration of the activity, usually 5 years.
[22] http://www.transparency.org/cpi2010/results, accessed on July 13, 2016.

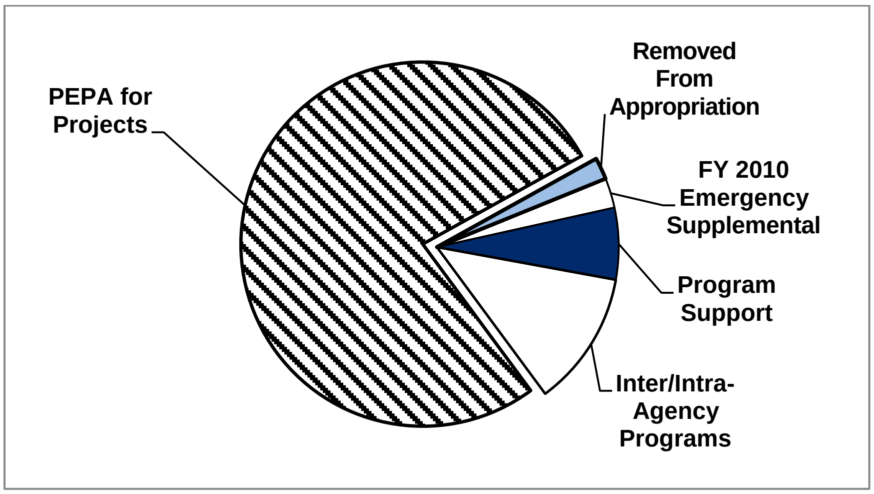
- USAID/Pakistan received $3.9 billion, including $3.8 billion through its bilateral agreement with the Government of Pakistan and a $120 million pre-PEPA emergency supplemental for flood relief through a cash transfer.

- The $3.8 billion obligated in PEPA included $3.5 billion for projects and $289 million in program support costs (indirect costs allocated across all projects).

- The appropriation was reduced by $457 million, which was redirected to Pakistan through inter- or intra-agency transfers, such as the Department of State's Fulbright scholarship program and programs under USAID's Office of Transition Initiatives.

- Another $88 million was removed for various reasons, such as a $73 million congressionally requested rescission, $10 million for OIG oversight, and $4 million reallocated within USAID.

Figure 4. Allocation of $4.5 Billion Appropriation, Fiscal Years 2010 Through 2014

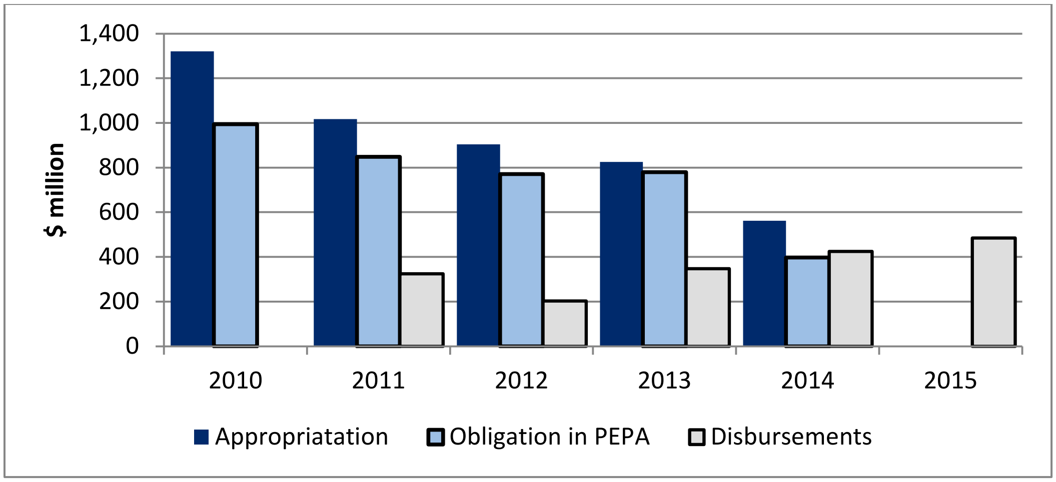


Source: USAID/Pakistan's Financial Management and Program Offices.

Figure 5 shows the appropriations, PEPA obligations, and disbursements between FY 2010 and FY 2015. No EPPA disbursements were made in FY 2010, as these funds were provided in FY 2011; EPPA appropriations and obligations ended in 2014.[23]

[23] Obligation amounts relate to the fiscal year they were appropriated.

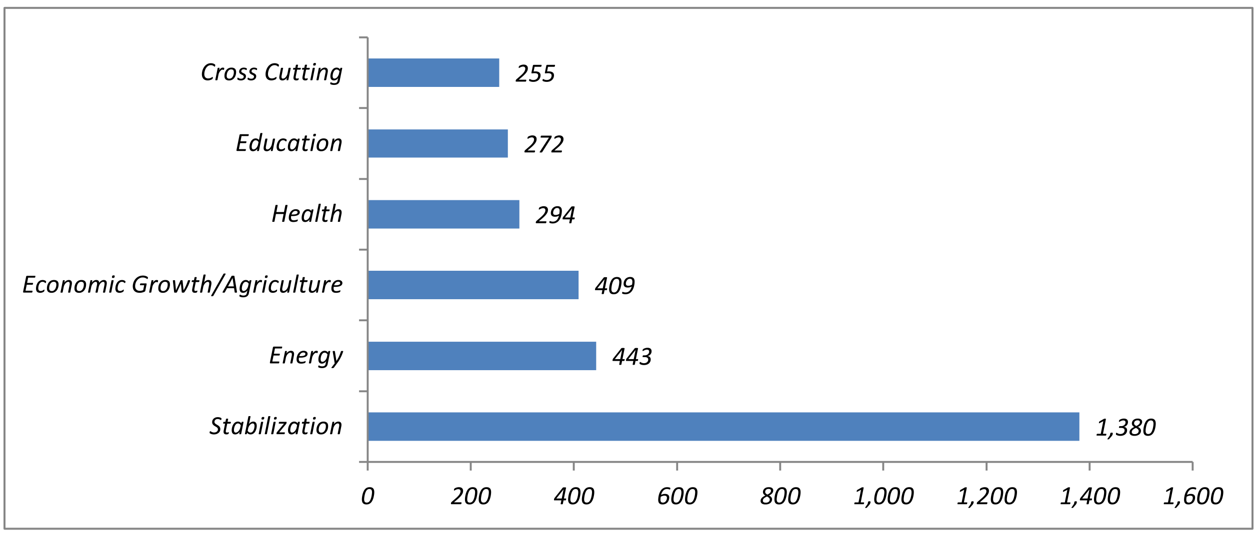
Figure 5. PEPA Funding, Fiscal Years 2010 Through 2015 ($ million)



Source: USAID/Pakistan's Office of Financial Management and Office of Program Management.
Note: Transfers and rescissions account for the difference between appropriations and obligations.

As of September 30, 2015, USAID/Pakistan had obligated $3.8 billion ($3.1 billion from EPPA and $1.3 billion in prior-year funds) for 231 awards. Figure 6 shows the awards by sector.

Figure 6. EPPA-Funded Awards by Sector, as of September 30, 2015
($ million)

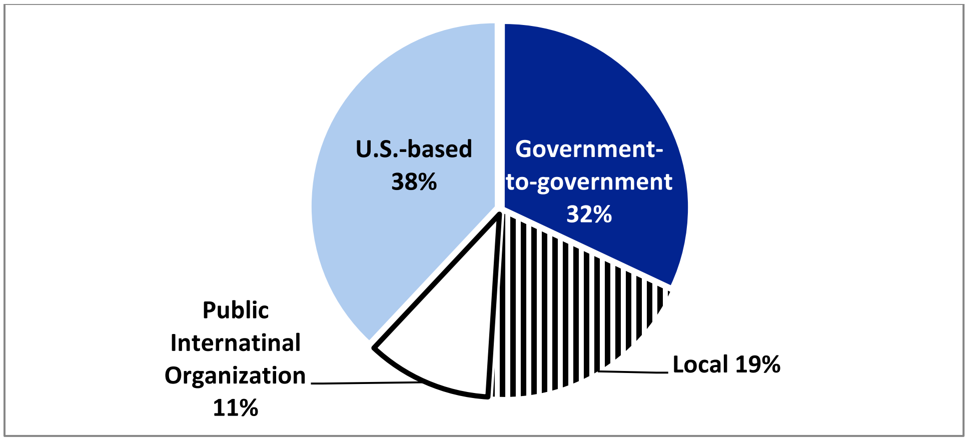


Source: USAID/Pakistan Intranet, accessed on November 2, 2015.

As of September 30, 2015, USAID/Pakistan had awarded 51 percent of the amount of its portfolio to Pakistani organizations—as directed by the State Department—and 49 percent to public international organizations and U.S.-based organizations (figure 7). [24]

[24] Public international organizations principally comprise governments. Examples include United Nations, such as the World Food Programme, or World Bank organizations.

Figure 7. Awards by Value and Recipient Type



Source: USAID/Pakistan Intranet, accessed on November 2, 2015.

USAID/Pakistan Lacked Sufficient Resources To Manage EPPA Funds Properly

Between 2008 and 2009, USAID/Pakistan's budget more than doubled, from $407 million to $1.1 billion.[25] USAID/Pakistan needed additional staff to manage the sharp funding increase, but faced several challenges, including an insufficient number of technical staff, a high turnover rate of U.S. direct-hires, and an overreliance on local staff inexperienced with USAID policies and procedures. Frequent supervisor change, inexperienced and dissatisfied local staff, and a lack of strong relationships with Pakistani counterparts increase the risk that USAID-implemented programs will not achieve their intended results.

USAID Could Not Fill or Accommodate Authorized Staffing Levels. In May 2009, the director of USAID/Washington's Afghanistan-Pakistan Task Force addressed Congress on USAID's plan for an increased presence in Afghanistan and Pakistan. The director recognized "the special challenges . . . in terms of attracting and retaining qualified candidates, ensuring a safe and secure environment, and preparing new hires for the rigors of their assignments."[26] He further stated:

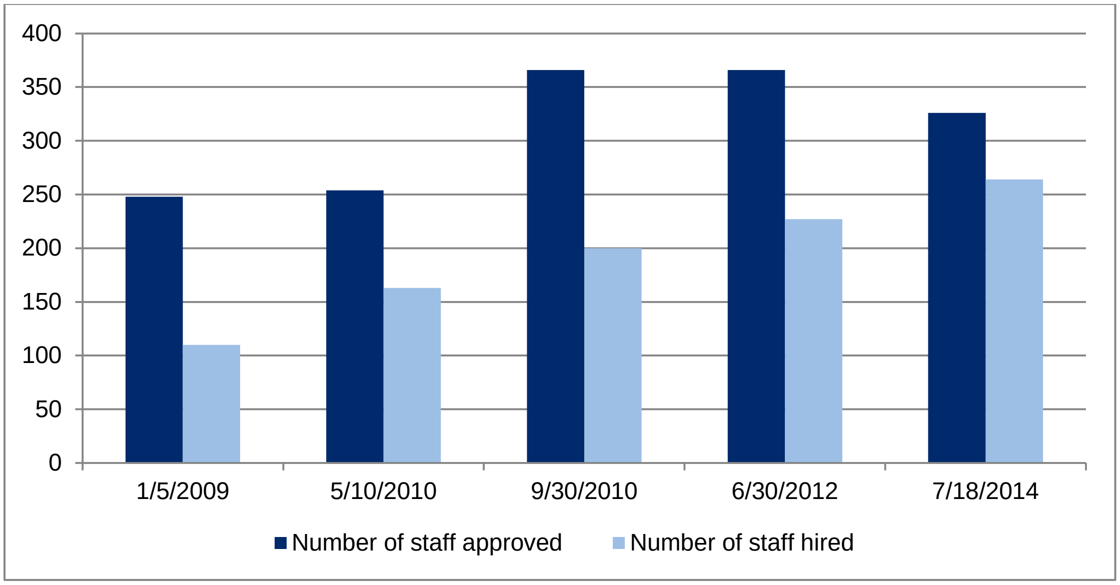
> In Pakistan, USAID's program has grown from a $200 million dollar a year cash transfer in Fiscal Year 2002 to an over $1 billion dollar request in Fiscal Year 2010. To meet the demands of such a large program, USAID's approved U.S. and Foreign Service National staffing ceiling in Pakistan increased twice . . . once in July 2008 from 114 to 162 and again in January 2009, from 162 to the new level of 243.

Despite being authorized higher staffing levels, USAID/Pakistan was unable to fill all of the authorized positions. Figure 8 shows the gap between authorized and actual staffing levels.

[25] Amount provided by USAID/Pakistan budget analyst.

[26] "Afghanistan and Pakistan: Resourcing The Civilian Surge," hearing before the Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, House of Representatives, 111th Congress, May 19, 2009.

Figure 8. Staffing Levels at USAID/Pakistan, Fiscal Years 2009 Through 2014



Source: USAID/Pakistan's Office of Human Resources.

Note: For 2009, the mission's Office of Human Resources stated that the number of staff approved was 248; this number differs slightly from 243, the number the director of the Afghanistan-Pakistan Task Force cited in testimony above.

In 2009, the mission staffing was at less than half of authorized levels. Staffing in procurement and financial management was insufficient to award and monitor EPPA activities adequately. During FY 2009, USAID/Pakistan had filled 8 of 18 authorized procurement positions and 9 of 18 authorized financial management positions. The mission obligated $1.1 billion of FY 2010 funds and disbursed $873 million. While staffing increased by October 2010, it was still below authorized levels: 20 of 28 authorized procurement staff, and 26 of 31 authorized financial management staff. The majority of new staff were locally hired Pakistanis.

In addition, despite assertions by the director of the USAID Afghanistan-Pakistan Task Force that the civilians sent to Pakistan were "qualified individuals with extensive experience for their positions," a USAID study issued in February 2013 concluded that "USAID Pakistan still does not have an adequate number of staff who possess the required knowledge and understanding of Agency business practices and relevant technical experience and skills."[27]

Accommodating additional staff was also difficult. USAID/Pakistan reported in its FY 2010 Federal Managers' Financial Integrity Act Certification, that space constraints prevented hiring more.[28] In that report, the mission cited space constraints as a material weakness. In 2012, USAID built a temporary office building, providing space for additional staff. However, actual staff levels continued to be lower than authorized.

[27] "USAID/Pakistan Implementation Modalities Assessment," February 2013.

[28] The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires "ongoing evaluations and reports of the adequacy of internal accounting and administrative control of each executive agency." The Act requires the head of each agency to annually prepare a statement on the adequacy of the agency's systems of internal accounting and administrative control.

High Turnover in U.S. Direct-Hire Staff Created Additional Challenges. ADS 436 states the standard length of a tour of duty is 24 months; employees may request an additional 2-year tour or an extension. Exceptionally challenging posts are designated for 1-year, unaccompanied assignments (without family members). In 2009, USAID offered additional benefits for second tours in Iraq, Afghanistan, and Pakistan to encourage employees to seek 2-year tours. Under this program, eligible U.S. direct-hire staff with extensions were eligible to receive an additional 15 percent pay differential.

However, according to a USAID/Pakistan official in October 2014, only about half of direct-hire staff were extending their tours. According to the 2013 USAID/Pakistan study, most U.S. direct-hire staff "cited the standard 1-year U.S. staff tour as an obstacle to continuity and effective management and monitoring," although 49 percent were planning to leave after the first year. In addition, about half of these staff had less than five years of service with USAID.

In September 2014, the mission director encouraged staff to stay for 2 years. However, by February 2015, he recognized that people often can't take working at the mission for more than 1 year, noting that staff work 12 hours a day, 6 days per week, and are under a lot of stress and time constraints. He added that, when the State Department wants something out the door, they have to get it out.

Frequent turnover has several disadvantages. First, turnover affects relationships with counterparts—Pakistani and expatriate—and local staff. For instance, one mission staffer noticed that during his first year, Pakistani counterparts did not open up much to him. However, they became much more receptive when he stayed for a second year. He said he understands this attitude: Why bother building a relationship when they will be gone within a year?

Second, turnover adds another layer of complexity in conducting the work, due in part to frequent changes in supervision. On average, local staff have a new U.S. direct-hire supervisor each year. One local employee noted that every U.S. staffer comes with different expectations; at times it becomes difficult to manage so many changes in the U.S. staffer's expectations. Another staff member said, effectively, U.S. hires are at the mission for 6 months; the rest of the time they are either on leave or training.[29] The staffer added that it is a challenge to bring them up to speed and adapt work to their work styles. Of the 41 locally hired contracting officer's representatives (COR) and agreement officer's representatives (AOR) we interviewed, 30 (73 percent) said turnover hindered their work. Counterparts at the World Bank and the Asian Development Bank—whose staff typically serve 3- to 4-year tours—considered USAID's 1-year tours as impeding coordination and continuity. One official said, you cannot learn much about Pakistan in such short duration, and will be unable to make informed decisions and provide advice.

Ultimately, turnover—and the lack of coordination and continuity it creates—weakens staff morale. As one local employee noted, with the changes in U.S. hires, staff feel like they are on continual probation.

Local Staff Had Limited USAID Experience. When EPPA took effect, USAID/Pakistan officials heavily relied on local CORs and AORs to oversee their multimillion-dollar portfolio. As of

[29] U.S. direct hires with a 1-year tour in Islamabad are allotted two rest and recuperation periods, up to 25 days each. Other leave can be taken for a total of 65 days out of country. Training and consultations out of country do not count against the 65 days if approved for a mission-critical reason.

January 2015, local employees averaged 4.6 years of experience, and over half were made CORs or AORs within a year of joining USAID, placing them in high-pressure positions without adequate experience.

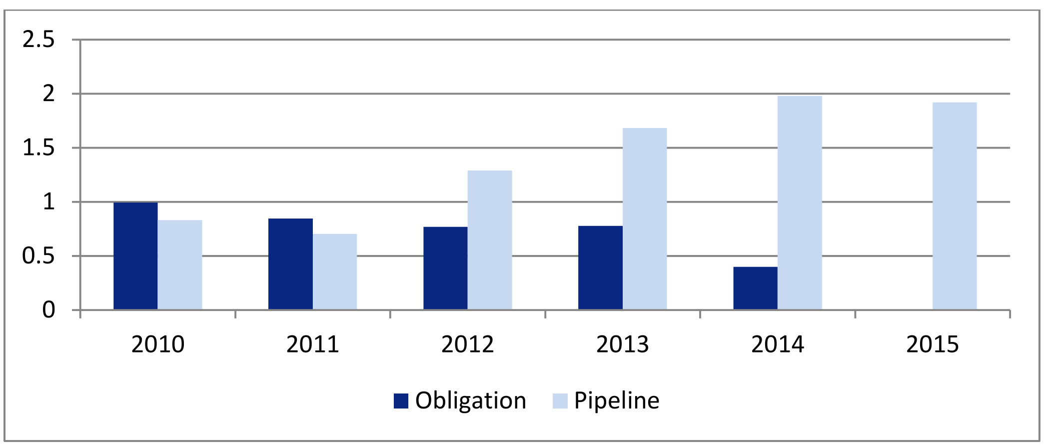
USAID/Pakistan's 2013 study listed local employees' lack of experience with USAID as contributing to the large amount of unexpended funding. The study noted that "FSN [foreign service national] staff, who in other missions provide continuity when there is frequent USDH [U.S. direct hire staff] turnover, have not been with USAID long: the average FSN in Pakistan has served just 42 months (as compared to 14 years in Cairo and 13 years in New Delhi)."

The high level of responsibility assigned to the relatively inexperienced local staff was partly due to an insufficient number of staff to manage the large portfolio. According to USAID/Pakistan's 2013 study, "The mission simply does not have enough human resources to manage annual allotments of almost $1 billion per year." The study cited the Energy Office as an example: "Eight employees (including two U.S. citizens and five FSN [foreign service national] professionals) are trying to manage a portfolio that is expected to spend over $127 million in FY 2013." In the 1980s, 10 U.S. staff and roughly 30 local employees managed an energy portfolio of that size.

Rapid Increases in Funding and Other Challenges Created a Large Pipeline

According to USAID guidance, the Agency's obligation of funds should not exceed 18 months' predicted need for each award, with some exceptions.[30,31] USAID/Pakistan's pipeline of unexpended funds grew to $1.3 billion in FY 2012 due to the surge of EPPA funding (figure 9). As of September 30, 2015, the pipeline continued at $1.9 billion. Mission staff said they expected the pipeline to shrink as a result of increasing disbursements and decreased funding.

Figure 9. EPPA Obligation in PEPA and Pipeline, Fiscal Years 2010 to 2015 ($ billion)



Source: USAID/Pakistan Office of Financial Management and Office of Program Management.
Note: EPPA appropriation ended September 30, 2014.

[30] ADS 602.3.2. USAID defines an obligation as a "legal liability of the government for the payment of funds for specific goods or services ordered or received. It includes a range of transactions, e.g., contracts, grants, loans, guarantees, wages, and travel."
[31] USAID is required to fully fund construction and scholarship awards.

More than half of USAID/Pakistan's pipeline is due to the nature of the programs to which the funds are assigned. For instance, USAID requires infrastructure projects to be fully funded up front, but they can take years to implement. For example, money has been set aside for 2 years for the Kaitu Weir Stage 1 dam, holding up $81 million. Similarly, $97 million for the Kurram Tangi Dam Stage 2 project was on hold for nearly 2 years. Other exceptions can also tie up funds, such as the $72 million Pakistan Private Investment Initiative, which sat in the pipeline for 2 years waiting for matching funding from prospective investors.

Concerned over the growing pipeline, USAID/Pakistan issued a report in 2013 that identified several underlying causes for the growth, including high turnover of U.S. direct hires, limited local staff experience, long procurement time, Pakistani Government bureaucracy, and a cumbersome congressional notification process. Consider the following:

- According to ADS 201, initial planning of a project can take from 3 to 6 months. Once approved, the average time to make a competitive award is 311 days. The requirement to conduct preaward assessments for first-time awards to Pakistani entities further lengthens the process.

- The mission reported that due to the fallout from a series of major events in FY 2011, the Pakistani Government delayed visas, denied in-country travel requests, and stopped communicating with USAID/Pakistan on government-to-government projects that were under way.

- In FY 2011, due to heightened tensions between the Pakistani Government and the United States Government, Punjab, the most populated province in Pakistan, refused USAID assistance just as the mission was set to launch three large projects there: education, health, and municipal services. USAID redirected the projects to other provinces, delaying them.

In April and June 2014, the USAID/Pakistan mission director wrote two memos to the State Department deputy chief of mission and the ASSIST coordinator regarding reallocation of unexpended funds in the pipeline. This was in response to a directive from the Office of Afghanistan and Pakistan Affairs to reduce the pipeline, which had reached $2.4 billion. USAID/Pakistan officials discussed several reprogramming actions that helped manage the pipeline. For instance, the mission reprogrammed funds from the Municipal Services Program because it was not making progress and had a large pipeline.

Congress rescinded $100 million from the unexpended balances under Economic Support Funds in 2012. A State Department deputy secretary looked to Pakistan for the majority of these funds ($92 million, of which $73 million was from EPPA and $19 million from Pakistan's FY 2009 funds). An additional $8 million was taken from other missions.

USAID/Pakistan's Risk-Reduction Measures Were Weak

Given Pakistan's reported high level of corruption, local capacity constraints, and limited knowledge of USAID requirements, awarding half of EPPA funds through Pakistani organizations was especially risky. Tasks intrinsic to USAID/Pakistan's 231 EPPA-funded activities—such as monitoring in insecure locations and the need for technical oversight of infrastructure programs—exacerbated these risks. ADS 220.3.3.1 states:

> Before authorizing a project and subsequently obligating or subobligating funds to be disbursed directly to a partner government, missions must . . . address, through a risk mitigation plan and the bilateral implementing agreement, any identified vulnerabilities or weaknesses . . . and [mitigate] all risks identified such that no acceptable level of fraud is assumed.

USAID took several actions to reduce the potential for fraud, waste, and abuse: (1) conducted preaward assessments, (2) established an Assessment and Strengthening Program for capacity building, (3) used fixed-amount reimbursement agreements, (4) awarded a monitoring and evaluation contract, and (5) established an Office of Infrastructure and Engineering. However, some of these actions initially lacked the rigor needed to minimize risk.

Preaward Assessments. In line with Federal Acquisition Regulation (FAR) 9.1.04-1, the mission contracted local accounting firms to (1) conduct preaward assessments of potential first-time recipients and (2) determine whether Pakistani organizations could effectively manage and account for funds in accordance with U.S. Government policies and regulations.[32] From FY 2010 to FY 2014,[33] the accounting firms conducted 66 assessments of 132 organizations, at a cost of $1.2 million; the assessments identified vulnerabilities and recommended actions to address them.[34]

USAID officials may make awards with special conditions to remedy weaknesses before the first disbursement or by a fixed date.[35] However, the mission did not ensure that recipients corrected significant vulnerabilities. For example, in May 2011, we reported that for two of eight audited assessments that contained special award conditions, the mission disbursed $204 million before it obtained sufficient evidence that conditions had been met and weaknesses resolved.[36] In response, the mission developed a tracking spreadsheet for measuring progress on resolving the weaknesses. Despite this risk mitigation strategy, we reported in June 2013 that vulnerabilities had not been addressed within the set period because the recipient lacked the capacity to correct identified weaknesses.[37] USAID subsequently reduced the scope of the award, cutting its budget from $89.4 million to $39.9 million.

USAID acknowledged that the lack of follow-up on weaknesses identified in the preaward assessments was a significant internal control deficiency.[38] The mission committed to (1) develop a risk management tracking system for monitoring non-government-to-government award weaknesses and (2) set quarterly meetings with the technical offices to track government-to-government special award conditions. While we confirmed in April 2015 that the

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[32] FAR states that to be determined "responsible" for obtaining a federal award, a prospective contractor must have sufficient financial resources and the necessary organization, experience, accounting and operational controls, and technical skills—or the ability to obtain them. Prior experience is not the sole basis for determining responsibility.
[33] Includes one assessment conducted in December 2014 (FY 2015).
[34] Six of the 66 risk assessments were of Pakistani Government organizations that included 72 departments. For instance, the risk assessment of the Balochistan Provincial Government included 15 departments, such as Irrigation and Power, Public Health, Engineering, Finance, and Education.
[35] ADS 303.3.9.2 allows assistance officers to make an award with "special award conditions" if the recipient's capacity to manage USAID funds responsibly cannot be confirmed, but "only if it appears likely that the potential recipient can correct its deficiencies within a reasonable amount of time." These conditions are intended to be for a limited time, not for the duration of the award.
[36] "Audit of USAID/Pakistan's Management of Preaward Assessments," Report No. G-391-11-004-P.
[37] "Audit of USAID/Pakistan's Agribusiness Project," Report No. G-391-13-004-P.
[38] USAID's annual internal control assessment of mission operations.

mission was tracking progress on resolving identified weaknesses, resolution remained slow. For example, two of four engineering firms reviewed failed to resolve weaknesses to an acceptable risk level by their deadlines.

- One firm missed its March 2013 deadline to improve its accounting system. While security concerns barred USAID officials from conducting a site visit to verify that the risk had been mitigated, the firm informed USAID in mid-September 2015 that the accounting system was able to produce the desired reports. By the end of the month, USAID/Pakistan changed the risk rating to low, based solely on support provided by the firm.

- The other engineering firm missed not only its September 2013 deadline, but also two USAID-provided extensions: December 2013 and September 2014. However, in May 2014, before the latest deadline, USAID/Pakistan prohibited the firm from participating in future task order competitions because of noncompliance, and decided to end one of its indefinite quantity contracts task orders. However, as of January 2016, the contracting officer allowed the firm to complete its task order period of performance because its work was satisfactory.

In addition, some awards were made without preaward assessments of local implementing partners:

- In July 2010, USAID/Pakistan awarded a local engineering firm $21 million without an assessment. The first independent audit report on the use of these funds, released in February 2015, found that the engineering firm did not have procurement policies and procedures and did not use accounting software to maintain its accounting records.[39] The report questioned $5 million in costs, primarily because of lack of support for salaries and lack of competitive procurements.

- In 2010, the mission made three awards totaling $31.6 million to Rural Support Programmes Network—including a $19.5 million capacity development award—with only a "desk review."[40] Justification for making the awards was based on three prior awards amounting to $6 million, which ended 4 years earlier. In addition to prior experience, USAID relied on the organization's assertions that it met the other responsibility requirements. However, nothing in USAID/Pakistan's responsibility review indicated that its prior awards included capacity development.

- An $8.9 million award to Associates in Development for capacity development was based on USAID's experience with the organization on two construction awards and the firm's self-certifications that it met FAR requirements. However, the negotiation memo for the award indicated the organization was weak in capacity development, one of the award's main tasks, and should outsource the function.

Finally, we reported in 2011 that the mission did not follow ADS requirements to verify the quality of contracted accountants' work on preaward assessments.[41, 42] USAID/Pakistan did not

[39] Independent Auditor's Report of USAID's Resources Managed by AGES Consultants (Al-Kasib Group of Engineering Services), February 10, 2015, by Rafaqat Mansha Mohsin Dossani Masoom and Co. Chartered Accountants.

[40] The OIG defines a desk review in this case as limited to self-assertions and certifications from the prospective implementer, a determination that the prospective implementer did not appear on an exclusion list, and a review of past performance.

[41] "Audit of USAID/Pakistan's Management of Preaward Assessments," Report No. G-391-11-004-P.

check the accountants' work to make sure they complied with contract requirements to properly support, index, and document their conclusions. After we determined that the accounting firms did not fully comply, USAID developed a checklist to review supporting documentation for a random report sample.

In addition to USAID/Pakistan contracting directly with accounting firms for preaward assessments, the mission's Assessment and Strengthening Program (ASP) contracted accountants for preaward assessments. Yet the mission did not require ASP to follow documentation procedures. From October 2009 to December 2014, ASP contracted accountants for 16 preaward assessments, 42 percent of the total conducted, but did not verify the quality of the accountants' work.

Implementation of the Assessment and Strengthening Program. USAID/Pakistan designed ASP to identify and manage the risks associated with shifting 50 percent of awards from proven international contractors and grantees to local entities, many of which did not have experience working with USAID. The $44 million program supports Pakistani public and private organizations through training and policy development in financial management, human resources management, monitoring and evaluation, and procurement management. However, in 2012, we reported that the three ASP partners awarded 5-year agreements in October 2010 lacked the expertise to implement the program.[43] A follow-up of the 2012 audit found that the mission did not independently verify the partners' achievements.

In January 2013 (more than 2 years after the awards), revisions were made to the performance management plans for the implementing partners: Lahore University of Management Sciences, Associates in Development, and Rural Support Programmes Network. Despite these revisions, performance shortcomings continued to cast doubt on ASP's ability to develop sustainable capacity in Pakistani organizations and minimize the risk to U.S. Government funds.

- Implementers themselves needed capacity-building training. Rural Support Programmes Network staff obtained training in August 2013 to develop manuals on financial management, procurement, IT, and internal audit—training they had provided to clients since late 2010. According to the agreement officer's representative (AOR), Associates in Development staff did not get training because they never submitted the self-assessment that was required before they could request it.

- Two government officials interviewed confirmed that ASP training was insufficient. For example, the program management unit directors in Sindh and Khyber Pakhtunkhwa stated that Associates in Development's training did not engage the program management team, and that instead of designing manuals that would address specific project requirements, a generic manual was presented. A program management director similarly stated that the trainings provided by ASP partner Lahore University of Management Sciences were too generic in nature and not program specific. Respondents to a survey done for the program's midterm evaluation also commented on the generic nature of the manuals. According to members of local organizations who received short-term training in customizing the manuals, follow-up assistance—to develop forms and use monitoring and evaluation tools—was limited. For example, the midterm evaluation noted that, although the organizations

[42] ADS 202.3.6.1 requires USAID staff to ensure that work performed by contractors accords with the terms in the contract and that outputs are of acceptable quality.
[43] "Audit of USAID/Pakistan's Assessment and Strengthening Program," Report No. G-391-12-009-P.

"expected mentoring in the modification of the manuals . . . capacity development plans did not include such assistance."

- USAID/Pakistan revised the performance management plans to establish indicators for measuring achievement of capacity development goals, and directed Associates in Development and Rural Support Programmes Network to evaluate each other's capacity development training. However, because the two NGOs have a mutual interest in showing progress on building capacity, the reviews may have lacked the objectivity needed to yield reliable results. Moreover, the midterm evaluation report for ASP found inconsistencies in one of two validation reports it reviewed.[44] The validation report provided a high score for having an internal audit manual, although staff were unaware of it. The validation report also stated that procurement staff had been trained when they had not.

In June 2015, a mission official said the mission would let the Lahore University of Management Sciences and Associates in Development agreements expire without extension in October 2015, but gave Rural Support Programmes Network an extension, scheduled to end in October 2016.

Fixed-Amount Reimbursement Agreements*.* This form of assistance is designed to reduce the risk of excessive costs by reimbursing contractors a fixed amount, approved in advance based on reasonable cost estimates, for completed work that meets contract specifications. For its government-to-government fixed-amount reimbursement agreements—which account for 60 percent of the mission's government-to-government portfolio value—USAID/Pakistan was required to review and approve cost estimates provided by the Pakistani Government. However, later evidence suggests that these reviews were inadequate and that estimates were overstated, resulting in excessive costs to the U.S. Government. For example:

- USAID/Pakistan did not identify unsupported rates for construction materials on a $32.5 million reimbursement agreement cost estimate for repair and reconstruction of the Peshawar Tourkham Road. The Pakistani Government overinflated the National Highway Authority's rates to compensate for outdated actuals. As a result, the reimbursement agreement had approximately $4.5 million in overstated costs.

- Some $730,765 in excess costs resulted from exchange-rate fluctuation between the time the cost estimate was prepared and the agreement was signed. When the mission signed reimbursement agreements with the FATA Secretariat, it designated the award amounts and milestone payments in U.S. dollars, converting the rupee-based cost estimates the Pakistani Government provided. Because the exchange rate since January 2009 has favored the rupee over the U.S. dollar, USAID paid more than actual cost on its projects.

A review of six Auditor General of Pakistan reports disclosed that between 2011 and 2012 USAID payments exceeded Pakistani costs by $1.6 million because of exchange rates that became unfavorable to the U.S. dollar. Further, between 2012 and 2014, the Auditor General of Pakistan questioned $28.3 million in overstated rates for items such as market fluctuation on

[44] As of October 2014, ASP had completed five validation reports.

12 reimbursement agreements—all of which were awarded to the FATA Secretariat.[45] The Auditor General questioned the Secretariat's use of sole-source contracts (which limit competition and increase risk) to implement the reimbursement agreements and its approval of cost estimates submitted by the sole source, the Federal Works Organization. The Auditor General reports also determined that the Government of Pakistan's cost estimates included $6 million in construction material taxes, which USAID/Pakistan paid even though it was exempt.

During our audit, USAID/Pakistan began developing guidance for reviewing reimbursement agreements cost estimates. In June 2015, USAID issued its revised Mission Order 200.10, "Government to Government Assistance," which includes a checklist for analyzing cost reasonableness and highlights some red flags, such as the use of unjustified cost escalations between the preparation of cost estimates and project award. However, the mission has not developed guidance on exchange rates, which if not appropriately taken into account can result in thousands of dollars needlessly paid. Setting the exchange rate to the one in effect at the date of signing the reimbursement agreement could reduce some of the risk of overpayment due to exchange rate fluctuation.

Monitoring and Evaluation Contract. Between June 2011 and December 31, 2014, the mission disbursed $35.6 million on its monitoring and evaluation contract. On April 1, 2015, it signed a new, $96.4 million, 5-year monitoring and evaluation contract.

Given the sizeable investment in monitoring and evaluation contracts—as well as the overall mission—and the high turnover rate of U.S. direct hires, effective use of these contracts is critical to ensuring efficiency. However, in October 2013, we reported that the program office did not comply with USAID/Pakistan's Mission Order 200.1, "Performance Monitoring and Evaluation," which required mission staff to do the following:

> Use evaluative approaches whenever necessary . . . to answer specific program management questions and to gain insights and reach judgments about the effectiveness of specific activities, the validity of a development hypothesis, the utility of performance monitoring efforts, or the impact of other changes in the development setting on achievement of results.[46]

The mission order also calls on the program office to ensure "that management or program actions to implement evaluation recommendations are identified, and that clear responsibilities and timelines are assigned."

Our 2013 audit found that the mission lacked documentation to support that (1) findings were appropriately discussed, (2) decisions on whether to implement monitoring and evaluation recommendations were documented, and (3) clear responsibilities were assigned and deadlines set for implementing recommendations. In response, the mission updated its filing system to

[45] While there is no mandate for USAID to audit fixed-rate reimbursement agreements, USAID and OIG agreed that the Auditor General of Pakistan would audit them. The parties further agreed that OIG would review the audits, issuing them under its cover with transmittal memos attesting to their soundness and summarizing their findings and recommendations. However, OIG agreed not to include recommendations regarding Auditor General questioned costs in its transmittal letters because they were presumed to pose no financial risk to USAID.
[46] "Audit of USAID/Pakistan's Independent Monitoring and Evaluation Program," Report No. G-391-13-003-P.

comply with the mission's filing policy. However, the COR did not maintain documentation related to follow-up on evaluation results.

In USAID/Pakistan issued Mission Order 200.2, "Evaluation," in August 2014, superseding Mission Order 200.1. The new order required that, within 30 days of the receipt of the evaluation report, development teams provide comments, determine whether to accept evaluation findings and recommendations, and document the main findings of the evaluation. Teams are required to develop an action plan for addressing evaluation findings, conclusions, and recommendations and "assign clear responsibility and timelines for completion of each set of actions."

We followed up with three CORs/AORs whose programs had evaluation reports. We found that two had not maintained documentation of their review, had no plan of action to address the recommendations, and one was unaware of the mission order directing this. Further, the supervisor of the other COR was unaware of the mission order. The third said he believed the recommendations were for future programs, even though the program that the evaluation addressed had 1 year left when the report was issued and USAID was planning to extend the award.

Office of Infrastructure and Engineering. In fall 2010, USAID/Pakistan established the Office of Infrastructure and Engineering, using resources remaining from its Office of Earthquake Reconstruction to provide engineering assistance to mission offices.[47] Engineering assistance helps reduce the risk of delays and higher-than-necessary project costs—an especially critical function for Pakistan, which accounted for 24 percent of USAID's worldwide construction portfolio in 2013. However, several weaknesses—both outside of and within the office—have diminished its effectiveness.

First, technical offices did not consult with the infrastructure and engineering office. USAID's construction policy, issued in April 2012, left it to each office to decide how it would conduct oversight, and offices generally relied on their own engineers—11 engineers in two technical offices, the program office and three regional offices—to monitor their construction efforts. To encourage offices to use the infrastructure and engineering office and to respond to a recommendation we made in August 2011, USAID/Pakistan issued Mission Order 200.8 in December 2013, which gave the office full responsibility and authority for construction projects and directed all regional engineers to report to it.[48] The mission order was not effective immediately. For example, the FATA office, with many construction projects, did not start complying with the order until January 2015. One mission official speculated that technical offices resisted the order because they thought the infrastructure and engineering office would take their funds.

Second, the mission did not implement a March 2012 Office of Infrastructure and Engineering recommendation related to the proposed Dhana Weir irrigation project. The office director informed the deputy mission director and the acting head of the Peshawar office that the proposed project was not feasible and recommended not implementing it. However, in May 2013, the mission awarded $16.9 million for the project. Due to security concerns, the work was not completed by the December 2014 end date, and mission officials extended the deadline by

[47] Unlike the reconstruction office it subsumed, the Office of Infrastructure and Engineering does not receive separate project funding.
[48] OIG's "Audit of USAID/Pakistan's Community Rehabilitation Infrastructure Support Program," Report No. G-391-11-006-P, found that management decisions by nonengineers had caused delays and increased project costs.

1 year. As of August 2015, the mission had disbursed $4.5 million, and an additional invoice of $7.5 million was pending.

Lastly, the office, which is responsible for conducting cost reasonableness analyses for infrastructure projects, could not provide documentation needed to assure that incurred costs are reasonable for the reimbursement agreements included in the audit. The infrastructure and engineering director said that, other than in email correspondence, the office's work is not documented, and agreed that reimbursement agreement review should be documented in program office files. In June 2015, USAID/Pakistan issued Mission Order 200.10, requiring staff to complete cost realism checklists for reimbursement agreements and to enter documentation supporting government-to-government awards in the Agency Secure Image and Storage Tracking System.

Office of Infrastructure and Engineering officials have reported some improvement in these areas. For example, as of a meeting in January 2015, they said they were receiving information on most of the construction projects from the technical offices.

USAID/Pakistan Paid Taxes It Was Exempt From

The U.S. Government Annual Appropriations Act prohibits USAID from paying host-country taxes and requires tax exemptions or reimbursement of taxes for assistance funds under bilateral agreements.[49] The act further requires that 200 percent of taxes assessed and not refunded be withheld from the next year's assistance appropriations to the country. Accordingly, PEPA exempts assistance fund recipients from paying Pakistani taxes, including customs duties, import taxes, income tax, sales tax, and value added tax.

However, in 2013, when U.S.-Pakistan relations began to fray, obtaining tax exemptions became problematic and, over the next few years, assistance fund recipients paid various Pakistani taxes. A USAID/Pakistan legal adviser confirmed: "Some of USAID/Pakistan's implementing partners may have paid taxes in connection with certain procurements. Such payments are inconsistent with the terms of the bilateral agreement … and may violate U.S. appropriation law."

USAID/Pakistan's first mention of the problem appears in the July 2012 notes of the review committee meeting, in which the mission director notes long customs delays and tax-exemption as control deficiencies. In December 2014, the senior legal adviser commented that the current tax exemption or recovery mechanism was not effective. USAID/Pakistan took actions in 2015 to resolve the problem:

- In February 2015, USAID/Pakistan issued interim guidance instructing assistance fund recipients to complete tax-exemption request forms—listing each item needing exemption—and submit them to USAID 35 days prior to purchase. According to the guidance, the Pakistan's Economic Affairs Division processes the requests within 5 business days and issues a tax-exempt certificate to present to vendors. However, an accounting firm that we consulted with during our audit stated that each province has its own tax law. In addition, the CPA firm informed the mission that the Pakistani tax collection system involves multiple entities, at both the federal and provincial government levels, and applies various tax rates at multiple transaction levels.

[49] The Secretary of State may waive the provision for tax exemption if U.S. Government foreign policy interests outweigh the need for tax exemption.

- In July 2015, the mission reported the taxation exemption and refund process as a significant deficiency in its annual Federal Managers' Financial Integrity Act certification.
- In December 2015, USAID and the Economic Affairs Division were working to develop a standard operating procedure for tax exemption.

USAID/Pakistan gave four reasons for the more than 2-year delay in addressing host-country taxation of goods purchased through U.S. assistance funds:

1. The Pakistani Government's evolving priorities and change of focus to international nongovernmental registration.
2. The absence of Federal Board of Revenue members from meetings with the Economic Affairs Division on the tax-exemption approval process.
3. The Government of Pakistan's request to update PEPA language to include new legislation on taxes.
4. The Federal Board of Revenue's restructuring into three branches: general sales tax, customs, and other taxes.

USAID/Pakistan has not been able to determine the amount of taxes paid because, according to the legal adviser, vouchers do not capture that information.

While it continues to work with the Economic Affairs Division on this issue for future improvements, USAID/Pakistan may be noncompliant with the appropriations act. Since the act requires a reduction of Pakistan's appropriation by 200 percent of any taxes not refunded, noncompliance has ramifications for the U.S. Government's relationship with Pakistan.

USAID/Pakistan Did Not Comply With Some Procurement Requirements

In making acquisition and assistance awards, USAID/Pakistan generally complied with procurement requirements, including ADS, the USAID Acquisition Regulation, the FAR, and the Code of Federal Regulations (48 CFR 1.102), which calls for the timely delivery of products and services representing best value, while maintaining the public's trust and fulfilling public policy objectives.

While procurement actions generally complied with requirements, we observed two systemic deviations from requirements, and 7 of 29 awards reviewed had exceptions.[50]

Systemic Deviations. Two kinds of deviations were systemic: USAID did not obtain required support for government cost estimates, and it did not review the adequacy of awardees' accounting and purchasing systems before awarding cost-reimbursable contracts to U.S.-based organizations.

- **No support for government cost estimates.** ADS 300.3.5 states that a complete procurement request for a new action must include an independent government cost estimate. According to USAID's Independent Government Cost Estimate Guide and Template (a mandatory reference for ADS chapter 300), an independent government estimate provides "an objective basis for determining price reasonableness," especially

[50] The audit sample included 28 procurement awards; an additional infrastructure oversight contract was reviewed in conjunction with the review of a government-to-government award.

when only one offeror responds to a solicitation. In addition, a well-constructed and supported estimate serves as the basis for budgeting and reserving funds for future requirements. The manager of the project or activity under which the award is made is responsible for preparing the estimate with support from the contracting officer or agreement officer and others. The estimate should specify currency and include rationale, data sources, assumptions, and supporting calculations.

Only 2 of the 29 files sampled contained supporting documentation for independent government cost estimates. Without supporting documentation, the estimate does not provide a sound basis for evaluating the reasonableness of implementer proposals.

- **No reviews of accounting and purchasing systems.** FAR 44.305 and 16.301-3 state that cost-reimbursable contracts cannot be awarded to an organization that does not have an adequate accounting system. Contracting officers "shall withhold or withdraw approval of a contractor's purchasing system when there are major weaknesses or when the contractor is unable to provide sufficient information" to allow a determination. On June 1, 2015, a USAID/Washington official wrote, "No contractors' purchasing systems review and accounting systems reviews have been conducted for the organizations listed to date, in accordance with FAR 44.3 and FAR 16.301-3, because there was no funding available." As of that date, USAID/Pakistan had issued eight cost-reimbursable awards, totaling $513 million, to six U.S.-based organizations.

In addition, seven of the 29 awards we reviewed had other exceptions or deviations from procurement requirements. The seven awards amounted to $69 million (out of 165 awards[51] amounting to $3 billion funded between FYs 1997 and 2014, wholly or in part with EPPA funds).[52]

Two contracts for construction monitoring and evaluation services were awarded to AGES—a Pakistani engineering firm that had not previously received U.S. Government funds—without the required preaward assessments.[53] The awards, totaling $21.1 million, also had several deviations.

- In July 2010, USAID awarded an $11.3 million indefinite quantity contract task order, cost-plus-fixed-fee contract. On cost-plus-fixed-fee contracts, FAR prohibits contracting officers from accepting a price or fee that exceeds 10 percent of the contract's estimated cost, excluding fee. Nonetheless, USAID agreed to a fee of 25 percent for AGES. The file contained no supported justification of the contracting officer's decision. As of December 31, 2014, the mission had obligated $11.2 million and disbursed $10.6 million on the contract, which ended in February 2015.

- In September 2012, USAID awarded a $9.8 million, sole-source, time-and-materials, level-of-effort contract with several undocumented deviations from FAR prohibitions, including (1) the use of time-and-materials contracts without the contracting officer documenting that no other contract type is suitable and (2) a 10 percent fee on other direct costs (such as travel, transportation, lodging, and subsistence) totaling $274,815 in the award budget, in

[51] The number of awards on July 10, 2014, the date we obtained the sample.
[52] USAID used EPPA funds for some previously started projects that extended through FY 2010.
[53] The negotiation memorandum was silent on previous history in their responsibility determination.

addition to profit on burdened rates.[54] As of December 31, 2014, the mission had obligated $9.5 million and disbursed $1.9 million. In addition, the first audit of AGES—conducted in February 2015, 2 months after the contract ended—found that the engineering firm lacked procurement policies and procedures, and did not have an accounting system to maintain its accounting records.[55] FAR requires the government to see that a contractor uses efficient methods and effective cost controls on time-and-materials contracts.[56] The report questioned $5 million primarily for lack of support for salary reasonableness, sales tax paid, and lack of competitive procurements.

Five other organizations had additional deviations:

- One award lacked a sole-source justification. According to ADS 303.3.6.5(a), an agreement officer may award a sole-source cooperative agreement only after preparing a justification memo.

- Two awards lacked sufficient responsibility determinations. FAR 9.1.04-1 states that to be determined "responsible" for obtaining a federal award, a prospective contractor must have sufficient financial resources and the necessary organization, experience, accounting and operational controls, and technical skills—or the ability to obtain them. USAID/Pakistan instead relied on the prospective implementer's self-certification or prior experience to determine responsibility.

- One award did not comply with requirements in USAID's Acquisition Requirement Part 715 in that reports by technical evaluation committees must summarize the evaluation results of each proposal.[57] Specifically, the committee's report in the award file did not detail the strengths and weaknesses of individual proposals. In addition, the report was not signed although signature blocks were provided.

- One award file did not include a negotiation memorandum, or summary of negotiations, to document all actions leading to award of a contract and support the source-selection decision—a requirement of FAR 315.372.

- One award did not include in the file environmental compliance requirements for the initial award, and a modification did not mention that an Initial Environmental Examination was required for a new activity until 1 year after the award was made. ADS 204.5.1 explains how to incorporate requirements for environmental compliance (with 22 CFR 216) into solicitations and awards.

- One contract omitted (1) a budget breakdown, (2) a fixed fee, and (3) the award period. The Code of Federal Regulations provides a governmentwide contract format showing

[54] Burdened rates means the labor charges included wages, social charges, indirect costs, general and administrative expense, and profit.
[55] The audit was conducted by Rafaqat Mansha Mohsin Dossani Masoom and Co. Chartered Accountants.
[56] In August 2015, USAID confirmed that AGES had transferred its accounting data to an accounting system developed in-house using an ACCESS database, which was acceptable to USAID.
[57] "The technical evaluation process is an analysis of each offeror's proposal with respect to the standards and criteria established in the source selection plan and as set forth in the solicitation. The Technical Evaluation Committee's (TEC) objective is to evaluate each offeror's technical proposal against the evaluation factors established in the solicitation to determine if the offeror is able to perform the tasks outlined in the statement of work."

where to put contract pricing information and performance dates (48 CFR 14.201-1). In addition, 48 CFR 16.306 requires that fees be set at the inception of a cost-plus-fixed-fee contract. Although the mission modified the contract to include the award period, it never added the budget or the fee.

- One award's review was not adequate to identify problems with the proposed activities. ADS 303.3.9.1(d)(1) states that before any grant or cooperative agreement is awarded, the agreement officer must review the proposed project's description and budget to ensure it adequately describes project objectives. USAID dropped two planned interventions—wheat cultivation and malaria nets—because wheat-planting season had passed, and malaria was not endemic to the assisted areas. The awardee substituted the wheat seeds with blankets and pillows for flood victims, then requested sturdier shelters for the victims because the tents USAID planned to provide would not withstand cold and snow, increasing the award amount and time.

- One grant to supplement public and private health services for flood victims was modified to include about $200,000 to continue a 2009 case-control study to see if vitamin D supplements would reduce pregnancy and neonatal complications.[58] USAID guidance does not address this type of study, nor the ethical issues related to it.[59] Flood victims who received placebos did not receive the vitamin supplements that the grantee believed would prevent severe medical conditions.

The majority of the sampled files with deficiencies were for awards made in 2009 and 2010—when staffing resources were insufficient to manage the program's scope and flow of funding as mandated by Congress. While USAID/Pakistan's procurement staff more than doubled between 2009 and October 2010—from 8 to 20, 12 of whom were locals—USAID's procurement workload rapidly increased in 2010, involving obligating $1.1 billion, disbursing $873 million, and managing 139 awards. In August 2010, the mission reported that understaffing negatively affected the rate of program design and implementation. In July 2012, USAID officials continued to report staffing deficiencies, noting that they were finding it difficult to find and keep experienced contracting or acquisition officers to assure compliance with procurement rules and regulations. For example, the responsibility determination for one deficient organization did not disclose the organization's lack of technical capacity to implement an award for capacity development.

USAID/Pakistan Guidance on Site Visits Was Insufficient

USAID/Pakistan's Mission Order 200.1, "Performance Monitoring and Evaluation," issued in 2009 gave scant guidance on conducting site visits, which allow USAID to see firsthand how its programs are being implemented. In addition, site visits were difficult to conduct because of travel restrictions caused by the security environment. Mission officials said travel restrictions in FYs 2010, 2014, and 2015 severely limited staff ability to visit project sites and assess progress. With in-country travel limited, especially for U.S. direct hires, office directors rely on local staff to

[58] The modification dated April 21, 2011, does not break out the cost; however a letter dated January 22, 2011, from USAID/Pakistan health offices estimated the budget at $200,000.

[59] In 2006, USAID issued a mandatory reference for ADS chapter 200 on protecting subjects in USAID-supported research. However, it does not specifically address placebo case-control studies—which compare outcomes for patients receiving treatment (here vitamin D supplements) with outcomes for those receiving placebos (sugar or other harmless pills)—or if they should apply in emergency disaster situations.

conduct site visits.[60] Of the 41 local AORs and CORs interviewed, 34 said they had made and documented site visits, but only 24 provided site visit reports.

Locally hired AORs and CORs have on average less than 5 years of USAID experience. Despite this limited experience, local staff conducted the bulk of site visits on USAID/Pakistan's multimillion-dollar portfolio and did not have sufficient guidance for doing so. Site visit templates contained in the 2009 mission order were broad, vague, or both: they instruct the user to determine progress toward USAID's goals and objectives, identify any problems, gather information for success stories, and determine if USAID-purchased equipment and commodities were marked and used properly. The template was not used for all site visits.

In January 2015, USAID/Pakistan revised the mission order, requiring CORs/AORs and government-to-government managers to perform site visits at least every 6 months that cover a "sufficient variety of locations to represent the range of tasks in any given award, and should be frequent enough to provide meaningful performance information." In addition, the order directed staff to complete the site visit report template located in the PakInfo database after each site visit. While USAID/Pakistan added a checklist of items for review to PakInfo, more than a year after the mission order was issued, the site visit templates were still in draft.

USAID/Pakistan Did Not Define Provincial Office Roles and Responsibilities

With the 18th Amendment to its Constitution on April 2010, Pakistan decentralized many government functions, devolving authority over them to provincial governments. After this, USAID/Pakistan had to form relationships with these governments, despite having a limited presence in the provinces. By 2015, provincial staff numbers had almost doubled. However, because of security concerns in 2013, direct hires and most local staff in Peshawar were permanently reassigned to Islamabad. Lahore direct-hire staff were temporarily assigned to Islamabad at that time (table 2).

Table 2. Distribution of USAID/Pakistan Provincial Staff, March 2010 and August 2015

Category	March 2010[a]				August 2015[b]			
	U.S. direct hires	Other[c]	Local staff	Total	U.S. direct hires	Other[c]	Local staff	Total
Peshawar Staff in Islamabad	1	5		6	2	1	10	13
Lahore Staff in Islamabad					2			2
Peshawar (Khyber Pakhtunkhwa)	1		14	15			3	3
Lahore (Punjab)			3	3			12	12
Karachi (Sindh)		1		1	2	1	13	16
Total	**2**	**6**	**17**	**25**	**6**	**2**	**38**	**46**

[a] Source: "Quarterly Progress and Oversight Report on the Civilian Assistance Program in Pakistan as of March 31, 2010," USAID, State Department, and Department of Defense OIGs.
[b] Source: USAID/Pakistan, as of August 17, 2015.
[c] "Other" includes U.S. personal services contractors, third-country nationals, and eligible family members.

[60] Local staff can also encounter embassy security restrictions and government obstruction—denial of permission, or permission granted late with obsolete dates—in trying to enter sensitive areas.

Despite assigning more staff to provincial offices, USAID/Pakistan did not establish their roles and responsibilities. Mission staff discussed the lack of defined roles for provincial offices in 2012, 2013, and 2015 risk assessment meetings. In addition, provincial offices did not have budgets and sought funds from the technical offices. However, the mission took no action to clarify roles or provide budgets for the offices commensurate with their responsibility for representing USAID in the provinces. In addition, the mission's 2013 "Implementation Modalities Assessment" study found that USAID/Pakistan had not clearly defined the roles and responsibilities of its provincial offices in Karachi and Lahore, where resources were underutilized and staff felt marginalized.

> Two projects the team examined (Sindh Basic [Education], Municipal Services) are plagued by the fact that, while multiple mission offices have a stake in them, their management structures are unclear. No one office owns [the projects]. It is not coincidental that both these projects require heavy involvement by USAID's provincial office in Karachi, as the mission has not yet clearly defined the roles, responsibilities, and authorities of that office. Indeed, the provincial offices in Lahore and Karachi both perceive themselves to be isolated, and both are dramatically underutilized relative to their capacity. Both these offices have an exceptional cadre of talented [foreign service national] and [U.S. direct hire] staff who frankly reported to the team that they feel cut off from the decision-making process in Islamabad and simply don't have enough work to do, nor enough clearly defined authorities and responsibilities to do it well.

Mission Order 200.6, "Project Design," states that provincial office staff are part of the development teams and that deputy mission directors in all three provincial offices may initiate, lead, support, or direct project design for implementation in one or more provinces. Yet the Karachi and Lahore offices lack a budget and need to seek funding from the technical offices, such as health, education, and energy. One provincial deputy mission director said the two offices are not included in the development objectives team, and that is part of the reason they do not have an equal chance to get funds to develop and run projects.

To increase oversight of projects in the field, the mission decided to use activity managers in the field since AORs and CORs are generally located in Islamabad. One USAID deputy mission director said that the role of the activity manager is not well-defined. Real functions cannot be delegated to the activity managers unless they are under the control of the AOR/COR.

USAID implements the majority of its programs outside Islamabad, and its presence in the provinces is important for monitoring, building relationships, and building the capacity of provincial governments and nongovernmental organizations there. However, without personnel who have the knowledge, authority, and budget, provincial offices cannot represent USAID responsibly.

CONCLUSIONS

The State Department's mandate to lead efforts in conflict-affected countries created significant challenges for USAID/Pakistan in implementing EPPA. Under State's lead, the mission has struggled to reconcile inconsistent requirements and conflicting priorities. At the same time, the mission lacked adequate resources and proper controls to manage EPPA funding effectively. Until these weaknesses are corrected, and State and USAID agree on how to align their cross-purposes, USAID/Pakistan will continue to be challenged to achieve EPPA's long-term development objectives.

RECOMMENDATIONS

To help clarify USAID/Pakistan's role in critical priority countries and improve development implementation, we recommend that the mission do the following:

Recommendation 1. *We recommend that USAID/Pakistan develop a Pakistan strategy that complies with Automated Directives System 201.*

Recommendation 2. *We recommend that USAID's Bureau for Policy, Planning and Learning revise the Automated Directives System to (1) clearly define USAID's roles and responsibilities for designing and implementing development when it is subject to State Department control in critical priority countries and (2) provide alternate development strategies when a country development cooperation strategy or a transitional country strategy is not an option.*

Recommendation 3*. We recommend that the USAID/Pakistan mission director prepare and provide to the USAID Administrator a plan to institute an interagency forum where USAID can better present its development perspective in critical priority countries, where the State Department takes the lead.*

Recommendation 4. *We recommend that USAID/Pakistan develop high-level indicator baselines and targets in its mission strategic framework.*

To reduce risk related to programming through Pakistani entities, to infrastructure projects, and to implementing programs in insecure locations, we make the following recommendations:

Recommendation 5. *We recommend that USAID/Pakistan's Office of Acquisition and Assistance implement guidance requiring risk assessments for potential local awardees, if no risk assessments were previously performed.*

Recommendation 6. *We recommend that, if USAID/Pakistan extends its award to Rural Support Programmes Network, the scope of work be reduced to overseeing the accounting firms' assessments, with the caveat that Rural Support Programmes Network review accounting firms' working papers for a random sample of assessment reports*.

Recommendation 7. *We recommend that USAID/Pakistan implement a plan for improving the delivery and measurement of capacity development under future awards.*

Recommendation 8. *We recommend that USAID/Pakistan develop policies and procedures to require that the exchange rate be established at the signing of the implementation letter as the exchange rate in effect at that date.*

Recommendation 9. *We recommend that USAID/Pakistan require the contracting officer's representative for the monitoring and evaluation contract provide a copy of Mission Order 200.2 to those following up on evaluation reports.*

Recommendation 10. *We recommend that USAID/Pakistan require contracting officer's representatives for the monitoring and evaluation contract to keep action plans for* *follow-up on evaluation findings and recommendations in their files and revise the file checklist to include these items.*

Recommendation 11. *We recommend that USAID/Pakistan require procurement officials to include cost realism checklists in the Agency Secure Image and Storage Tracking System for government-to-government awards, and periodically review for completeness the documentation supporting cost realism.*

To uphold procurement standards and strengthen internal controls and compliance with laws and regulations, we make the following recommendations:

Recommendation 12. *We recommend that USAID/Pakistan determine the amount of taxes it paid Pakistan and seek reimbursement from the Government of Pakistan or take steps to withhold the appropriate amount from future appropriations for assistance to Pakistan*.

Recommendation 13. *We recommend that USAID/Pakistan implement procedures for (1) determining and tracking tax liability, (2) seeking reimbursement from the Government of Pakistan for exempted taxes paid but not remitted, and (3) taking steps for withholding unremitted taxes from future appropriations to Pakistan.*

Recommendation 14. *We recommend that USAID/Pakistan's Office of Acquisition and Assistance add to its procurement checklist a requirement to document in its files all sources and calculations that support independent government cost estimates.*

Recommendation 15. *We recommend that USAID/Pakistan's Office of Acquisition and Assistance establish a policy for verifying whether U.S. contractors bidding for cost-type contracts have adequate cost accounting and purchasing systems as part of the responsibility determination.*

Recommendation 16. *We recommend that USAID/Pakistan complete site visit templates and checklists in PakInfo and implement a plan for validating that all appropriate staff are aware of and use the templates.*

Recommendation 17. *We recommend that USAID/Pakistan add a requirement to agreement/contracting officer representatives' designation letters to complete reports within a specified time after completing site visits.*

Recommendation 18. *We recommend that USAID/Pakistan issue guidance describing the roles of provincial offices and activity managers and describing how provincial offices will receive funding commensurate with their responsibilities.*

EVALUATION OF MANAGEMENT COMMENTS

We provided a draft of our report to USAID/Pakistan and USAID's Bureau for Policy, Planning, and Learning on May 18, 2016, for comment. USAID/Pakistan provided comments in a letter dated July 22, 2016.

USAID/Pakistan agreed with our 18 recommendations and described planned actions and completion dates for each. The mission has already taken action on recommendation 6—ending the award in October 2016—and recommendation 9, providing adequate support for the action taken. Therefore, we consider these two recommendations closed. Regarding the remaining 16 recommendations, the mission detailed planned actions and dates for completion of those actions that are responsive to the recommendations. We therefore acknowledge management decisions on the remaining 16 recommendations.

While USAID/Pakistan agreed with and has taken actions on our recommendations, it raised some concerns which we respond to below about our assessment of interagency collaboration, prioritization of development goals, local partner capacity building, monitoring and evaluation, working with local counterparts, and taxes and legal challenges.

Regarding interagency collaboration, the mission believes our report "underestimates the degree to which the State Department and USAID/Pakistan worked together" and "discounts the necessity of an interagency approach in Pakistan, where diplomatic, security, and development challenges intersect." We describe in the report the difficult environment in which USAID works, and recognize USAID's and State's respective objectives and roles, including State's role in deciding how Economic Support Funds will be used to promote special economic, political, and security interests. However, as we noted in the report, this model is not compatible with EPPA's intent for long-term development because USAID was not able to follow its development processes outlined in its policy guidance. A July 2016 Congressional Research Service report similarly noted: "In most cases, clear evidence of the success or failure of U.S. assistance programs is lacking, both at the program level and in aggregate. One reason for this is that aid provided for development objectives is often conflated with aid provided for political and security purposes."[61] Further, we acknowledge that USAID provided instructions for designing development strategies through a country development cooperation strategy or a transitional country strategy. However, it did not provide guidance on development responsibilities under a State-led effort. This created tensions between USAID and State Department representatives.

Regarding prioritization of development goals, USAID/Pakistan asserts that our statement about the challenges USAID/Pakistan faces in implementing its development objectives under State Department direction "insinuates a false distinction between 'real' development work and the overwhelming need to address Pakistan's energy shortfall and stabilize insecure areas of Pakistan." The mission further asserts that our report "ignores the degree to which USAID and the State Department took into consideration the development priorities of the new, democratically elected civilian government of Pakistan," citing an example in the Government of

[61] Marian Leonardo Lawson, "Does Foreign Aid Work? Efforts to Evaluate U.S. Foreign Assistance," Congressional Research Service, July 22, 2016.

Pakistan's Vision 2025 strategy that calls for "sufficient, reliable, clean, and cost-effective availability of energy." According to Vision 2025, energy and stability are "indispensable in ensuring sustainable economic growth and development." We do not dispute this; we assert only that the act required a balanced approach and that the Department of State's focus on energy overshadowed other development objectives. Both Pakistan's Vision 2025 and USAID/Pakistan's mission strategic framework support this balanced approach, providing overarching goals, reached through implementation of several development objectives in concert. We also point out some issues associated with energy planning. The State Department announced signature projects, including energy projects, before any development strategy had been proposed, launching them without adequate sustainability planning. Some projects fell short of intended results possibly because of the foregoing factors.

Regarding local partner capacity building, USAID/Pakistan questioned our statement that State imposed the use of host government and local institutions—in contrast to USAID's directive for missions to partner with government and local institutions. Our report acknowledges that EPPA encouraged the use of government and local institutions; however, SRAP's push to achieve a target of 50 percent of funds awarded to them, sometimes at the expense of ongoing awards by U.S. implementers, was at a time when little guidance was available. The wisdom of proceeding too swiftly with this imperative was questioned at the time by the chairman of the Senate Foreign Relations Committee—one of the writers of the act—because government and local organizations lack a track record of implementing programs effectively.

Mission-provided data as of September 30, 2015, showed that 50 percent of program dollars were awarded to local institutions. According to the mission, "This type of assistance has been significantly reduced from a high of 52.5 percent in FY 2010, to just 25 percent in FY 2015 and FY 2016." Realigning programing based on an assessment of local organizations' capacity to absorb the funding is a step in the right direction.

USAID/Pakistan questioned our reporting that its waiver request was based on USAID's rejection of its Stage 1 assessment. We reported what controller staff told us. Specifically, in February 2015, controller staff informed us that they had conducted a Stage 1 assessment and were awaiting review by a team in USAID/Pakistan as well as by the Office of Afghanistan and Pakistan Affairs and the Economic Growth, Education, and Environment Bureau at USAID/Washington. Controller staff noted that they planned to comply with ADS 220 by completing the Stage 1 assessment and other actions by end of fiscal year 2015. In August 2015, the controller informed us that the Stage 1 assessment had been rejected, and the mission was about to issue a request for an additional 5-year extension waiver for the Stage 1 assessment.

Regarding monitoring and evaluation, USAID/Pakistan notes: "Development outcomes are a result of many contributing factors, only some of which can be attributed directly to USAID's programs. The new ADS 200 series that is currently under Agency-wide review, once approved, is expected to reinforce this assertion, as the ADS will not require Missions to be responsible directly for results at the development objective level."

While many factors can affect country indicators for achieving high-level goals, maintaining such goals, setting targets, and monitoring changes are important for USAID to determine if aid is having the desired impact.

Regarding working with local counterparts, USAID/Pakistan points out that an "independent evaluation found that, overall, 'ASP was effective in improving compliance of beneficiary organizations' through improved documentation and beneficiary employees' awareness." In addition, it went on to say that the goal for improved management systems "has not been fully achieved for public sector beneficiaries because . . . some . . . organizations have not approved improved policies and procedures." The independent evaluation also stated that "there were a series of missed opportunities to provide further assistance to the [civil society organizations]," and that beneficiaries criticized the training that had no sequential order, impeding the ability to build on and understand the logic of the material and failure to target the unique needs of small and large civil society organizations.

Finally, a recurring provision of the annual appropriations act (Section 7013) prohibits the assessment of taxes by Pakistan on U.S. foreign assistance program funds. It further provides that if the foreign government or entity assesses taxes (unreimbursed) against a U.S. implementer on appropriated funds for U.S. assistance programs, then 200 percent of that amount shall be withheld from the next fiscal year's appropriation allocated for the central government of such country. Regarding the question of whether the mission is compliant with the appropriations act prohibition regarding Pakistan's assessment of taxes on U.S. assistance funds, the mission stated that, based on consultation with USAID's Office of General Counsel, it disagreed with our report's "interpretation of the tax provision contained in past appropriations acts and is of the opinion that the mission has not violated this statutory requirement. USAID/Pakistan believes it has not triggered withholding or reimbursement requirements contained in U.S. appropriations law."

We learned that the General Counsel's position was based, in part, on the appropriation act's lack of clarity as to how prior year liabilities would be treated. Congress has noted these technical shortcomings in the statute, and has proposed legislation to amend Section 7013(b)[62] to take into account prior year liability. Accordingly, we revised the report to state that the mission "may not be" in compliance with the appropriations act.

We appreciate the mission's thoughtful comments clarifying its position, and its willingness to move forward with implementing our recommendations.

[62] Senate bill, S. 3117, Department of State, Foreign Operations, and Related Programs Appropriations Act, for fiscal year end 2017.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. They 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 objective of the audit was to determine if USAID's programs in Pakistan contributed to the achievement of the development objectives of the Enhanced Partnership with Pakistan Act of 2009 (EPPA). We also set out to summarize the implementation of the act during the 5-year EPPA appropriation period, summarize the flow of funds, and assess select internal controls over functions that affect the ability to successfully achieve intended program results.

In addition, the Inspector General Act of 1978, as amended, requires auditors to promote economy, efficiency, and effectiveness in the administration of USAID programs and to prevent and detect fraud and abuse in such programs and operations.

On October 15, 2009, the President signed EPPA, authorizing $7.5 billion for civilian assistance to Pakistan over 5 years. As of September 30, 2015, Congress had appropriated $4.5 billion, of which USAID/Pakistan had received $3.9 billion, subobligated $2.7 billion, and disbursed $1.8 billion.

We conducted the audit in Islamabad, Pakistan, from September 23, 2014, to December 9, 2015. The audit focused on events, activities, and performance results from October 15, 2009, through September 30, 2015.

The mission self-reported its achievements during the EPPA period (appendix IV), which we did not verify. However, we provided examples of accomplishments identified in OIG audit reports of EPPA-funded programs.

We conducted the following work on this audit:

1. Interviewed USAID officials and staff, representatives from USAID's Office of Afghanistan and Pakistan Affairs, officials from the State Department's ASSIST, a representative of the Special Representative for Afghanistan and Pakistan, and representatives from other U.S. Government agencies.

2. Reviewed historical information from the act's inception.

3. Summarized OIG's prior program and financial audits and investigations.

4. Compliance tested a random selection of procurement activities.

5. Followed up on audit recommendations from audits of programs designed to minimize risk.

6. Reviewed and analyzed USAID/Pakistan's strategic planning, staffing, and monitoring and evaluation.

7. Determined the use of EPPA funds.

As part of the audit, we reviewed pertinent information to obtain an understanding USAID/Pakistan's operations:

- Bilateral agreement between USAID/Pakistan and the Government of Pakistan, and its 19 amendments.
- Quarterly Progress and Oversight Report on the Civilian Assistance Program in Pakistan.
- USAID/Pakistan's performance management plan and annual operating reports.
- USAID/Pakistan's Mission Strategic framework.
- USAID/Pakistan's performance management plan.
- USAID/Pakistan's Implementation Modalities Assessment (February 2013).

As part of the audit, we identified risk in determining the mission's significant internal controls for testing. We reviewed the following documents to identify internal control weaknesses significant to the audit objective:

- Federal Managers' Financial Integrity Act reports.
- Certifications and management control review committee reports regarding the mission's self-identified weaknesses for FYs 2010 through 2015.
- Mission portfolio reviews.
- Staffing pattern reports.

We obtained the following types of evidence: original documents from mission files, electronic documents provided by the mission, mission data, oral and written responses to auditor questions, other pertinent reports, and information related to the subject matter obtained from internet searches, including media articles.

Methodology

To answer the audit objective, we obtained an understanding, through document review and analysis and interviews, relating to USAID's implementation of its programs in contributing to the objectives of the EPPA. We obtained the mission's list of self-reported accomplishments, summarized accomplishments from prior OIG audit reports, reviewed the annual funding and allocation of funds to different sectors and organizations, reviewed the mission's risk mitigation activities, assessed the mission's staffing resources, and assessed the mission's compliance with procurement regulations. We inquired about allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

We reviewed pertinent criteria, including the following:

- Enhanced Partnership with Pakistan Act of 2009
- Consolidated Appropriations Act (of 2010 and 2012)
- Legislation on foreign relations through 2002, July 2003
- Federal Acquisition Regulation
- Code of Federal Regulations
- USAID's Automated Directives System (current and historical, including procurement, government-to-government, forward funding, obligations, planning, achieving, assessing and learning, and environmental procedures)
- USAID/Pakistan mission orders (current and historical) and notices
- Accra Agenda for Action
- Presidential policy directives
- USAID's Quadrennial Diplomacy and Development Reviews (2010 and 2015)
- Department of State's Office of Inspections "Compliance Followup Review of Embassy Islamabad and Constituent Posts, Pakistan"
- The 18th Amendment to Pakistan's Constitution
- The U.S.-Pakistan Strategic Dialogue Joint Statement
- Pakistan 2025, One Nation - One Vision

For a broader understanding of the issues related to the implementation of the act we researched the following documents:

- Congressional Research Service publications
- "Beyond Bullets and Bombs," June 2011, and "More Money, More Problems," July 2012, Center for Global Development
- Government Accountability Office reports
- "Asia: Aid and Conflict in Pakistan," International Crisis Group, June 27, 2012
- "White Paper of the Interagency Policy Group's Report on U.S. Policy toward Afghanistan and Pakistan," White House, 2009
- "Pakistan Country Report," Asylum Research Consultancy, February 20, 2015
- Pakistan Interior Ministry, 2015 international nongovernmental organization registration law
- Transparency International, Corruption Perception Index, 2013
- "Pakistan 2013 Human Right's Report," U.S. Department of State
- "A Less Gloomy Mood in Pakistan, Sharif Gets High Marks, while Khan's Ratings Drop," Pew Research Center, 2014
- Government of Pakistan's "National Power Policy 2013"
- "Electricity Infrastructure in Pakistan: an Overview," International Journal of Energy, Information and Communications, June 2013
- "Pakistan's energy crisis: causes, consequences and possible remedies," Norwegian Peacebuilding Resource Centre, January 2014
- World Health Organization, Health Indicators for Pakistan
- "Maximizing the Impact of Aid to Pakistan: Leverage Reform and Local Capacity," United States Institute of Peace, July 28, 2014
- "Hard Aid: Foreign Aid in the Pursuit of Short-Term Security and Political Goals," Carnegie Endowment for International Peace, September 2015
- Press articles (new and historical)
- U.S. Department of State press releases

We interviewed USAID/Pakistan and the State Department staff, and reviewed historical memos and letters including cables and correspondence from one Senator who sponsored the act to the Secretary of State, the USAID Administrator, and the special representative for Afghanistan and Pakistan regarding early direction of the program. We reviewed the three strategies the mission followed over the 5-year EPPA appropriation period and compared to the requirements of the act. We reviewed USAID policies and procedures for planning and strategy, and reviewed and summarized prior OIG Pakistan audit reports and reviewed the OIG report "Survey of USAID's Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen," Report No. 8-000-15-001-S, April 30, 2015.

Through the course of the audit, we conducted 113 interviews/meetings:

- We held 43 meetings with USAID/Pakistan U.S. direct hires, including each technical office director, deputy mission directors, mission director, director of the Office of Infrastructure and Engineering, numerous program office and financial office managers and staff, and interviewed representatives from USAID's Office of Afghanistan and Pakistan Affairs.

- We interviewed 41 of USAID/Pakistan's locally employed staff responsible for overseeing USAID/Pakistan awards.

- We held eight meetings with other U.S. agencies, including officials from the State Department's ASSIST and representatives of the Special Representative for Afghanistan and Pakistan, Bureau of International Narcotics and Law Enforcement Affairs, and the U.S. Army Corps of Engineers.

- We held meetings with international organizations including the World Bank, Asian Development Bank, United Kingdom Department for International Development, and Transparency International Pakistan.

- We held 17 meetings with Pakistan stakeholders including representatives from the Auditor General of Pakistan, Pakistan's Economic Affairs Division, Pakistan's Water and Power Development Authority, program directors from Sindh, Khyber Pakhtunkhwa, and the Federally Administered Tribal Areas, Provincial Reconstruction, Rehabilitation and Settlement Authority, a local accounting firm, and Pakistani university representatives, among others.

We worked with USAID/Pakistan's program office and the office of financial management to ascertain the EPPA universe, including appropriations, obligations, disbursements, pipeline, reprogramming of funds, and awards to implementers. We worked with USAID/Pakistan's human resources office to obtain current and historical staffing information.

We summarized audit reports of programs funded wholly or in part by EPPA. We summarized recipient contracted audits and Auditor General of Pakistan reports. We obtained a summary of OIG Investigation activities during EPPA period.

We judgmentally selected recommendations from four prior audits for follow-up review. Of the 26 recommendations from the four audit reports, we selected 17 that we deemed most significant for follow-up review. We selected the following audits because they related to the mission's risk reduction measures:

1. “Audit of USAID/Pakistan’s Assessment and Strengthening Program,” Report No. G-391-12-009-P
2. “Audit of USAID/Pakistan’s Independent Monitoring and Evaluation Program,” Report No. G-391-13-003-P
3. “Audit of USAID/Pakistan’s Government-to-Government Assistance Program,” Report No. G-391-14-002-P
4. “Audit of USAID/Pakistan’s Management of Preaward Assessments,” Report No. G-391-11-004-P

We followed up on issues that came to our attention through the mission’s annual risk assessment, such as improper payment of Pakistani taxes and the lack of guidance for provincial offices.

We attended missionwide discussions regarding payment of Pakistani taxes by implementers and through fixed amount reimbursement agreements. In addition, we discussed this issue with Pakistan’s Economic Affairs Division, the Auditor General of Pakistan, and a local CPA firm.

We discussed the international nongovernmental organization registration issue with the deputy mission director and obtained additional information from the media, ASSIST newsletters, and a review of the new law.

We selected a random stratified sample of 32 awards amounting to $1.1 billion, including 28 contracts, grants, and cooperative agreements and 4 government-to-government awards, from the population of 165 awards[63] amounting to $3.1 billion that USAID/Pakistan made with EPPA funds (either in whole or in part) between FY 1997 and FY 2014. We reviewed the awards for compliance with selected criteria. We did not project the results to the universe. We also reviewed the mission’s competitive practices and analyzed the sector focus of the awards, the type of contracts used, and type of implementer.

To answer the audit objective, we relied extensively on the computer-processed data contained in USAID’s financial management system, Phoenix. USAID’s FY 2015 Financial Report received an unmodified opinion, increasing the confidence for reliability of the information obtained. We also relied on information provided by USAID/Pakistan’s program office, which we tested against Phoenix data and made adjustments accordingly.

[63] The number of awards as of June 30, 2014, when the sample was selected.

Factors Affecting Implementation of EPPA in Pakistan

Floods. Catastrophic floods in 2010 affected about 20 million Pakistanis, prompting the mission to reprogram funds to humanitarian assistance and recovery.[64]

Decentralization. The 18th Amendment to the Pakistani Constitution called for devolution of authority from federal to provincial governments.[65] Adopted in May 2011, it required a major restructuring of partnerships and programs.[66] USAID/Pakistan, which had strong relationships with the federal government, then had to start forming them with provincial governments.

Political Tension. Several events in FY 2011, as programming was just getting started, worsened the relationship between the U.S. and Pakistani governments. These included the Osama Bin Laden raid, the killing of two Pakistanis by a U.S. contractor, and the inadvertent NATO forces killing of 24 Pakistani army troops on the border with Afghanistan.[67] The resulting tension reduced cooperation and delayed programs. In addition, the chief minister of Punjab, the most populated province, refused USAID/Pakistan's assistance, forcing the mission to reprogram large programs to other provinces. As a result, the Pakistani Government did not cooperate in meeting with USAID counterparts, did not provide visas, and impeded travel to project sites, all of which delayed program implementation.

Perceptions. According the Library of Congress, the 1985 Pressler Amendment stipulated that no U.S. aid would go to Pakistan unless the U.S. President certified that its nuclear program was used for peaceful purposes. The certification was granted annually until 1990, when the President refused to sign the certification.[68] The United States resumed aid to Pakistan after the 2001 terrorist attacks, viewing it as an ally against terrorism.[69] According to a Congressional Research Service publication, the cut-off of U.S. aid from 1990 to 2001 "left a lasting effect on Pakistani perceptions of the United States."[70] Pakistanis generally did not trust that the United States was a reliable partner.

New Regulations. On October 1, 2015, the Government of Pakistan issued new regulations requiring all registered international nongovernmental organizations to reregister and obtain permission from the Ministry of Interior to carry out activities in the country. The regulations also restrict the nature and location of groups' activities. If the Ministry of Interior perceives an organization to be participating in activities inconsistent with Pakistan's national interests, it can cancel the organization's registration.

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[64] PLOS Currents: Disasters, "A Summary Case Report on the Health Impacts and Response to the Pakistan Floods of 2010," April 11, 2013, by Omar Shabir.
[65] Center for American Progress, "The 18th Amendment and Pakistan's Political Transitions," by Colin Cookman, April 19, 2010.
[66] United States Department of State and the Broadcasting Board of Governors Office of Inspector General Office of Inspections "Compliance Followup Review of Embassy Islamabad and Constituent Posts, Pakistan" Report No. ISP-C-12-28A, May 2012.
[67] International Crisis Group, "Aid and Conflict in Pakistan, Asia," Report No.°227 – 27 June 2012.
[68] Library of Congress, http://countrystudies.us/pakistan/87.htm, accessed on August 24, 2016.
[69] USAID shut down its operations in Pakistan from 1995 and 2001. "To The People of Pakistan: A 50 Year History of USAID in Pakistan," by Management Systems International under the Independent Monitoring and Evaluation Contract, May 1, 2012.
[70] Susan B. Epstein and K. Alan Kronstadt, "Pakistan: U.S. Foreign Assistance," July 1, 2013.

Proposed Activities for EPPA

Title I. Democratic, Economic, and Development Assistance for Pakistan
Title I authorizes five types of programs. **1. Support of democratic institutions** • Strengthen Pakistan's institutions, including the National Parliament. • Voter education and civil society training. • Political party capacity building. • Capacity strengthening for the civilian Government of Pakistan. **2. Rule of law, government capacity, and respect for human rights** • Establishment of frameworks that promote government transparency and criminalize corruption. • Police professionalization, including training regarding use of force, human rights, and community policing. • Support for judicial and criminal justice systems. • Legal and political reforms in FATA. • Counternarcotics support. • Promotion of human rights. • Support for responsible, capable, and independent media. **3. Economic freedom and economic development** • Investments in water resource management systems. • Farm-to-market roads, systems to prevent spoilage and waste, and other small scale infrastructure improvements. • Investments in energy, including energy generation and cross-border infrastructure projects with Afghanistan. • Employment generation, including investment in infrastructure projects and support for small and medium enterprises. • Support for worker rights. • Access to microfinance. • Expanded opportunities and training for youth at risk of radicalization. **4. Investment in people** • Support for primary and secondary education and vocational and technical training. • Higher education programs. • Public health programs. • Capacity-building support for nongovernmental and civil society organizations. • Assistance to refugees and internally displaced persons and long-term development programs in conflict regions. **5. Public diplomacy** • Opportunities for civil society and other leaders to speak out against militancy and violence. • Expanded exchange activities to promote mutual understanding.

USAID/Pakistan's Self-Reported Results and Audit-Determined Results by Development Objective

<table>
<tr><th>USAID/Pakistan Achievements
(provided by USAID/Pakistan)</th><th>Achievements From OIG Audit Reports
(excerpts)</th></tr>
<tr><td>Energy (17 awards, $584 million)
Goal: Increased sustainable energy supplied to the economy.

• From FY 2009 to FY 2014, increased the power supply by more than 1,500 megawatts (MW), benefitting nearly 16 million people.
• Completed building or rehabilitating three dams for hydropower:
- Gomal Zam Dam
- Satpara Dam. Completion provided people in a remote region access to 17.6 MW of reliable electricity for the first time, along with potable water and irrigation water for 15,500 acres.
- Tarbela Dam. Rehabilitation added 128 MW.
• Rehabilitated three thermal power plants, adding 850 MW of generation.
• Increased revenues by $286 million, providing a sustained revenue source annually of approximately $200 million for the nine distribution companies.
• Reduced unscheduled load shedding, increasing returns to the economy by $180 million per year.
• With other donors, helped the Government of Pakistan implement reforms to meet the International Monetary Fund's program conditions and provided support to the critical analysis of the stock of circular debt, which the government used to revise the Electricity Act of 1913.</td><td>Energy Audits
Audits of energy programs identified positive efforts including installation of automatic meter-reading devices, allowing data to be transmitted from all-grid stations to a monitoring cell at each of the companies, permitting optimum load management, best use of available power, reduction in unscheduled load shedding, and increased revenue.

Progress was made in establishing geographic information systems with mapping functions that will allow the distribution companies to analyze power allocation, identify power line losses, and monitor the quality of the power distributed. The program also provided hardware and software to the companies, trained their staff, and on a pilot basis mapped selected areas for each distribution company, paving the way for the companies to map their entire networks.

While the Satpara Dam, a State Department signature project, was completed, but as of December 2013, it was generating significantly less electricity than anticipated due to various water rights issues that diverted water and lowered the water level in the dam.

The Gomal Zam Dam, a State Department signature program, was completed and generating electricity, but as of November 2015, it was not operational due to staffing issues with the water and power authority.</td></tr>
</table>

USAID/Pakistan Achievements	Achievements From OIG Audit Reports
Stabilization (113 awards, $2.1 billion) **Goal: Increased stability in target areas.** • Engaged civil society in policy advocacy that has fundamentally transformed governance, one example being the Khyber Pakhtunkhwa Right to Information law. • Contributed to the care and feeding of 4 million people who, at various times, have been displaced by conflict and 11 million people displaced by natural disasters. • Furthered the social and economic integration of the Federally Administered Tribal Areas with Pakistan by building or reconstructing infrastructure: roads, irrigation infrastructure, and electrical utilities. • Helped rehabilitate housing for more than 600,000 people displaced by the insurgency in Malakand, facilitating their return and reestablishing the community.	**Stabilization Audits** One program established 454 literacy centers and employed 341 male teachers and 113 female teachers. The program also showed that 2,639 farmers had improved agricultural yields and had gained higher prices for their produce because of extension and marketing efforts. Auditors verified a sample of beneficiaries for a reported 466,736 flood-affected individuals who received medical assistance. Auditors visited 29 projects to confirm the following reported results: 48,000 meters of street paved, 22,800 meters of drainage and sanitation piping constructed, 7,000 meters of retaining walls built to withstand flooding, and 92 education facilities/schools rehabilitated.
Education (32 awards, $683 million) **Goal: Improved opportunities for learning and work.** • Provided 10,415 scholarships to students to attend Pakistani institutes of higher education. • Enrolled more than 38,000 teachers in 2-year associate and 4-year bachelor degree programs, the first granting degrees in teacher education. • Sponsored fellowships for 35 students pursuing their doctorates in educational administration in the United States, who will return to leadership positions in Pakistani colleges and universities offering teaching degrees. • Registered more than 16,500 children and 7,500 girls in target districts of the Sindh Basic Education Program through school enrollment drives.	**Education Audit** One USAID program funded 410 of 2,297 planned scholarships to students enrolled in the new teaching curriculum. The program also established two new education degree programs and curricula for a 2-year associate degree in education and a 4-year bachelor of education degree. Sixteen Pakistan teaching institutions adopted the new degree programs.

<table>
<tr><th>USAID/Pakistan Achievements</th><th>Achievements From OIG Audit Reports</th></tr>
<tr><td>Economic Growth and Agriculture (28 awards, $574 million)
Goal: Improved economic status of the target populations.

Increased the value of regional and nonregional exports of U.S. Government-assisted enterprises by nearly $44 million between October 2009 and September 2014.
Increased the value of domestic sales of U.S. Government-assisted enterprises by more than $127 million.
Improved farmers’ access to irrigation by 485,000 acres.
Leveraged more than $14 million in new private investment.
Helped reduce the time required by Karachi port formalities for Afghanistan-Pakistan transit trade from 43 days to 23 days through innovations like expanded competition among transit carriers.
Procured and installed three generators and 27 powerful street lights to illuminate the Chaman border post, increasing the number of cargo trucks that customs officials could process in a day from 300 to 500.
Helped the Ministry of Commerce/Trade Development Authority of Pakistan develop a robust Web portal that gives exporters access to more markets.
Installed equipment for power supply and Internet connectivity at eight customs stations along the Afghan transit trade corridor, allowing Pakistan customs officials to implement an Electronic Data Interchange system with Afghanistan.
</td>
<td>Economic Growth and Agriculture Audits
For one program, as of March 2013, 605 farmer groups were formed who will receive agribusiness training and grants.

Another program awarded 37 research grants to Pakistani researchers through two competitive rounds of applications.

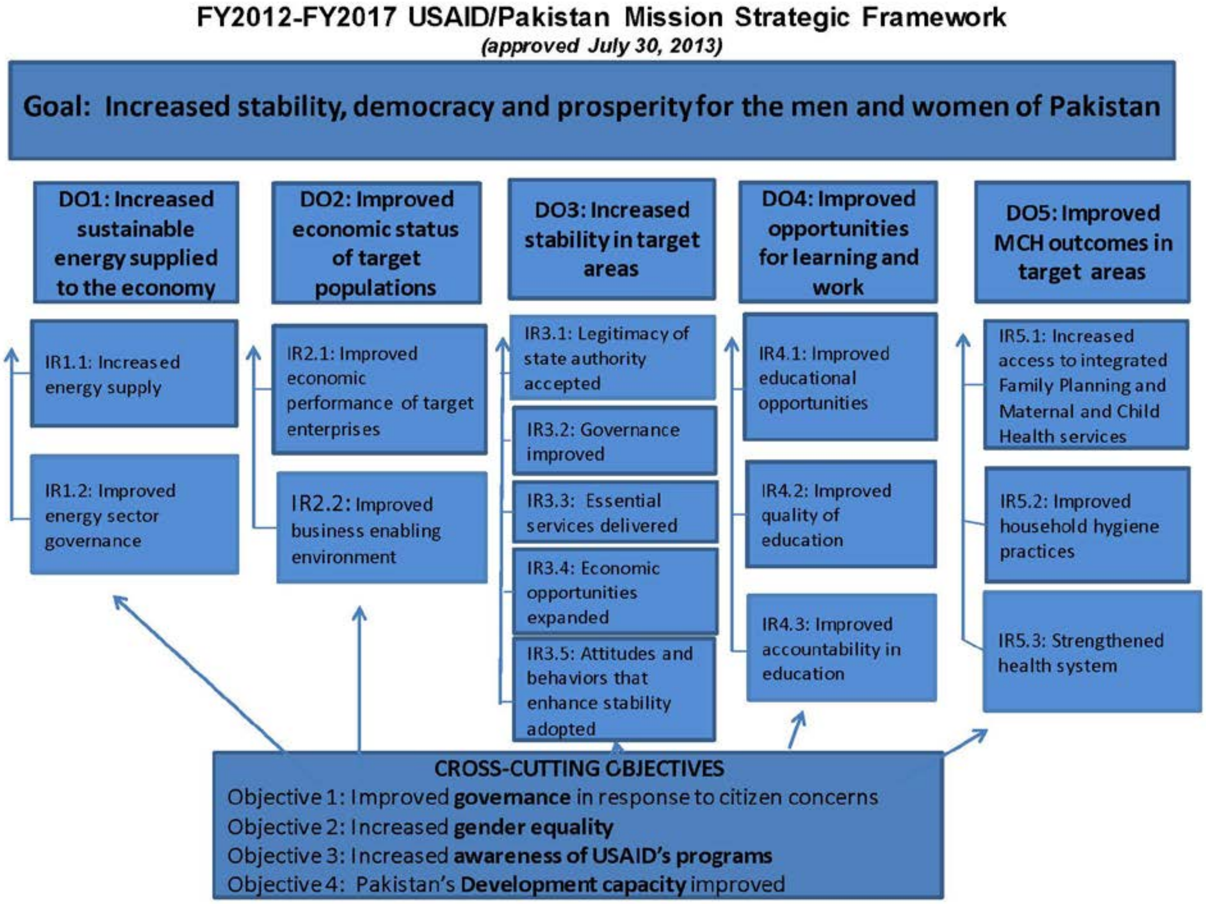
The entrepreneur program registered 26,482 beneficiaries and trained almost 21,000 of them in improved production practices.

Incomes increased progressively over the 3-year period. Project activities increased awareness, improved collection methods, and improved the links among beneficiaries, buyers, and markets.

The entrepreneur program also registered 33,000 beneficiaries and trained 26,476, mostly women, on improved milk production, basic business practices, and animal health management. It also registered 3,141 beekeepers and trained 2,755 in apiculture, basic business management, and marketing.</td></tr>
</table>

USAID/Pakistan Achievements	Achievements From OIG Audit Reports
Health (24 awards, $429 million) **Goal: Improved mother and child health outcomes in target areas.** • In 2013, USAID completed Phase I of a state-of-the-art obstetrics and gynecology facility at Jinnah Postgraduate Medical Center in Karachi, which provides training for 1,300 health-care professionals and care for 140,000 low-income women annually. • In 2015, USAID completed construction of the Jacobabad Institute of Medical Sciences, which will provide 1.2 million residents of rural Northern Sindh and Balochistan with life-saving health care. • In 2014, following the success of a contraceptive logistics management information system, which decreased stockout rates from 33 percent to 15 percent, USAID developed a vaccine logistics management information system to help reduce loss in vaccine supply due to poor supply chain management. • USAID supported the development of an original mass media campaign, “The Mirror,” to promote interspousal communication for birth spacing. It reached 32.5 million Pakistani viewers, increasing calls to a 24-hour hotline from 2,500 per month to 2,000 per day. • USAID launched high-impact initiatives to save newborn lives, including the following: – *Introducing chlorhexidine (CHX) in two rural districts of Sindh.* Within the first 4 months, this intervention reached 3,180 pregnant women—97 percent of whom used the antiseptic on their newborn’s umbilical cord within 24 hours of birth to prevent sepsis. – *Training and providing equipment to 418 health-care providers to implement “Helping Babies Breathe” activities in five districts in Sindh to prevent birth asphyxia.* Facilities reported resuscitating 668 newborns during the first 6 months of implementation. • USAID provided contraceptive commodities to cover the whole of Pakistan at a cost of approximately $82 million.	**Health Audit** Auditors conducted one health-related audit. In 2013 the OB/GYN wing of the Karachi Medical Center had provided nearly 200 women fistulas treatment, and more than 3,500 medical professionals used the learning and teaching auditorium for 22 seminars, 68 meetings, 24 workshops, and 41 classroom exams. An OIG January 29, 2015, audit found that the Jacobabad Institute was not likely to be sustainable.* As of February 4, 2016, USAID extended funding for 30 days for the Jacobabad Hospital while it continued to look for sustainable solutions with local entities. * “Audit of USAID/Pakistan’s Activities Related to Jinnah Post Graduate Medical Center and Jacobabad Institute of Medical Sciences,” Report No. G-391-15-002-P.

Mission Strategic Framework



OIG Activities During EPPA

By June 2010, USAID/OIG had established a field office in Pakistan. In September 2010, an award to Transparency International established a fraud hotline and fraud awareness program managed by OIG with USAID/Pakistan. The hotline allows individuals to report (by Internet, email, telephone, fax, mail, or in person) allegations of fraud or corruption related to USAID-funded programs. The following tables summarize OIG Investigations activities during EPPA.

Investigative Activities Including Matters Referred to Prosecutive Authorities for Pakistan October 1, 2009, to December 31, 2014[a]

Workload	
Investigations opened	65
Investigations closed	36

Civil Actions	
Civil referrals	2
Civil declinations	0
Judgments	1
Settlements	1
TOTAL	**4**

Criminal Actions	
Prosecutive referrals	6
Prosecutive declinations[b]	4
Arrests	0
Indictments	0
Convictions	**0**
Sentencing	0
Fines or assessments	0
Restitutions	0
TOTAL	**10**

Administrative Actions	
Reprimands or demotions	1
Personnel suspensions	1
Resignations or terminations	19
Recoveries	18
Suspensions or debarments[c]	**14**
Systemic changes	9
Other	7
TOTAL	**69**

Recoveries and Savings	
Judicial recoveries (criminal and civil)	$ 22,070,000
Administrative recoveries	$ 101,339,044
TOTAL	**$ 123,409,044**

[a] The data were provided by USAID Office of Inspector General/Investigations.

[b] A declination is a decision not to prosecute.

[c] The 14 reported suspensions and debarments related to 11 individual and organizational contractors. Three contractors were on both the suspended and debarred lists. Suspensions are a temporary measure, lasting up to 1 year. Debarments usually last for 3 years.

The following tables summarize the audit activity of programs funded in full or in part by EPPA.

USAID/OIG Audit Activities
October 1, 2009, to December 31, 2014

Item	Number/Amount
Audits of EPPA-funded activities	22
Projects audited projects met intended goals, per audit	3
Projects audited partially met intended goals, per audit	12
Projects audited did not meet intended goals, per audit	7
Amount of awards audited (partially funded by prior-year funds)	$1,314,777,997
Audits with questioned costs	4
Amount of questioned costs	$10,164,171

In addition, annual audits of local organizations that expend more than $300,000 in USAID funds were contracted out to independent certified public accountant firms. The Auditor General of Pakistan conducted audits of government-to-government activities. The following tables summarize the results of these audits of EPPA-funded activities.

Contracted Audits October 1, 2009, to December 31, 2014

Type	Number of Audits	Total Audited Amount ($ Million)	Questioned Costs Transmitted by OIG ($ Million)
Recipient-contracted audits	53	155	11.7
Auditor General of Pakistan	32	599	5.6
Total	**85**	**754**	**17.3**

The following table describes findings from prior OIG audits that did not or only partially met intended results. Of 22 EPPA-funded programs amounting to $1.3 billion, 19 (86 percent) did not or only partially met intended results.

Findings of Prior OIG Audits of EPPA-Funded Programs

Program	Audit Findings
Seven Programs Did Not Meet Goals	
"Audit of USAID/Pakistan's Livelihood Development Program for the Upper Region of the Federally Administered Tribal Areas," (G-391-11-002-P) December 10, 2010 *The project ended in March 2012 and was partially funded by EPPA.*	After 2 years, the program had not achieved its main goal of social and economic stabilization to counter the growing influence of extremist and terrorist groups in the upper FATA. Security issues and allegations of wrongdoing overshadowed and impeded program progress. The change in focus toward humanitarian/disaster assistance and the shift in U.S. Government strategy toward including more Pakistani implementers impeded progress. The State Department gave the implementer a 3-month extension to transfer contracts to Pakistani partners.
"Audit of USAID/Pakistan's Community Rehabilitation Infrastructure Support Program," (G-391-11-006-P) August 29, 2011	After 2 years, this $150 million program was not meeting target goals. The mission stated that U.S. government objectives in Pakistan changed so often and so drastically during the implementation project that the demand-driven mechanism was not given the opportunity to deliver the small-scale infrastructure activities in its original mandate.
"Audit of USAID/Pakistan's Firms Project," (G-391-12-001-P) November 3, 2011	This project, which began in 2009, stopped almost all of its economic development projects to redirect funds for disaster assistance during the 2010 floods. The audit found no measureable increases in sales or employment under this 4-year, $89.8 million contract.
"Audit of USAID/Pakistan's Agribusiness Project," (G-391-13-004-P) June 12, 2013	The local implementer was not making progress and almost 1.5 years into the program, it had not created any permanent jobs. The implementer lacked capacity to handle the $89 million award and, subsequent to the audit, the award was reduced to $40 million.
"Audit of USAID/Pakistan's Energy Efficiency and Capacity Program," (G-391-12-002-P) November 23, 2011	This $23.5 million Department of State signature program was substantially short of its goal, replacing only 963 of the 11,000 pumps planned for reducing energy demand. The replacement cost increased from $1,400 to nearly $8,500 each because contractor administrative fees were distributed over 963 pumps instead of over the planned 11,000. Progress was hindered by a late 2009 U.S. Government strategy shift toward greater involvement of Pakistani organizations in implementing assistance programs. As a result, the mission began reconsidering contracts with U.S.-based implementers and formulating details of such a transition.
"Audit of USAID/Pakistan's Sindh Basic Education Program," (G-391-14-003-P) March 21, 2014	A $155 million program had not built any of the 120 projected schools after 2 years because of delays from the government-to-government partner and a local implementer.

Program	Audit Findings
"Audit of USAID/Pakistan's Khyber Pakhtunkhwa Municipal Services Program," (G-391-15-003-P) March 27, 2015	Three years after signing the $85 million agreement for this signature program, the project had not achieved any significant results. Only a few small projects in one location were completed, and only 5.8 percent of the grant agreement was disbursed. Mission officials said delays were partly due to a 2011 U.S. Government interagency review that led to redesigning the project.
Some Projects Partially Met Goals (five examples from 12 programs that partially met goals)	
"Audit of USAID's Pakistan Transition Initiative Program," (G-391-12-003-P) February 3, 2012	While this $102 million program was quick and efficient in delivering projects that the local communities wanted and helped create a good relationship with the Government of Pakistan, there was no plan for linking the short-term results to a longer-term development program. The mission responded it would have a transition plan in place within 6 months.
"Audit of USAID/Pakistan's Gender Equity Program," (G-391-13-002-P) March 28, 2013	This 2010 5-year, $40 million program, implemented by a local organization, made grants to organizations combating gender-based violence among other things. Program grants did not achieve maximum effect. The small budgets of activities funded reduced the quality and made them too short to have a lasting impact. Through making many small grants, USAID intended to ensure the grants reached a geographic mix of grantees, providing quick-impact activities that would have a measureable, long-lasting effect on behavior. However, by creating numerous small grants, the program reduced effectiveness.
"Audit of USAID/Pakistan's Assessment and Strengthening Program," (G-391-12-009-P) September 30, 2012	The program did not meet its first-year targets. Although 38 programs were in process as of May 2012, implementers had finished none of the 46 they set out to complete. The program did not meet its targets mainly because of insufficient planning, as USAID/Pakistan did not identify the key partner organizations targeted for capacity building.
"Audit of USAID/Pakistan's Power Distribution Program," (G-391-14-001-P) December 20, 2013	This $230 million energy program did not successfully establish rates that distribution companies charged to consumers. As a result, costs exceeded income. The program scope changed from four distribution companies to nine after 6 months and, 2 years later, changed to focus to just two, leaving unmet expectations and affecting the program's reputation in Pakistan. The program did not achieve desired results because the Government of Pakistan did not support changes in distribution companies' management and governance and did not prevent political intervention.
"Audit of USAID/Pakistan's Activities Related to Jinnah Post Graduate Medical Center and Jacobabad Institute of Medical Sciences," (G-391-15-002-P) January 29, 2015	The Jacobabad Institute was a State Department signature project announced in July 2010. The project was to renovate the existing hospital, but it was so dilapidated that USAID chose to construct a new facility at a cost of $11.2 million (including design, furniture and equipment). The institute was unlikely to be sustainable because the Sindh government's proposed operating and maintenance budget was insufficient. As of February 2016, USAID extended funding for 30 days for the Jacobabad Hospital while it continued to look for sustainable solutions with local entities.

Audits With Questioned Costs and Funds for Better Use

The following table summarizes OIG audits of EPPA funds with questioned costs or funds for better use.

<table>
<tr><th colspan="2">Audits With Questioned Costs and Funds for Better Use[71]</th></tr>
<tr><td colspan="2">Finding: “Audit of USAID/Pakistan’s Energy Efficiency and Capacity Program” (Report No. G-391-12-002-P). As of September 15, 2011, the $23.5 million program (implemented by a U.S. contractor) was substantially short of its goal of replacing 11,000 pumps by March 2012 to reduce energy demand. Mission officials reported that farmers had replaced 963 pumps (9 percent of 11,000 planned). In addition, the replacement cost increased from the original estimate of $1,400 to nearly $8,500 each because contractor administrative fees were distributed over 963 pumps replaced rather than over the anticipated 11,000 pumps.</td></tr>
<tr><td>Recommendation: Discontinue the program to install pumps at the end of the contract period unless the mission develops an action plan to reach program goals.</td><td>Mission Action: According to USAID officials, USAID/Pakistan reprogrammed and put to better use $20 million to other energy projects.</td></tr>
<tr><td colspan="2">Finding: “Audit of USAID/Pakistan’s Firms Project” (Report No. G-391-12-001-P). This November 2011 audit looked at a 4-year, $89.8 million contract to develop and improve the productivity and competitiveness of Pakistani small to medium-size firms by increasing exports and employment. The audit found that this U.S.-based organization had improper project procurements lacking supporting documentation, such as receiving reports, procurement plans, specified requirements on purchase orders, and no documentation of procurement solicitation bids. Auditors questioned the costs related to the unsupported procurements.</td></tr>
<tr><td>Recommendation: Determine the allowability of $1.3 million in questioned costs (unsupported) and recover those costs determined to be unallowable.</td><td>Mission Action: According to USAID officials, as of September 1, 2015, no management decision had been reached and the recommendation remains open.</td></tr>
<tr><td colspan="2">Finding: “Audit of USAID/Pakistan’s Independent Monitoring and Evaluation Program” (Report No. G-391-13-003-P). USAID/Pakistan awarded a 5-year, $71 million task order to implement the Independent Monitoring and Evaluation Program. The audit found that the mission bypassed U.S. Federal Acquisition Regulation and was using incorrectly the General Services Administration (GSA) pricelist for the task order issued to the contractor. In addition, the contractor (1) did not record labor costs properly; (2) submitted inaccurate time sheets, based on the allocation of time in the budget, and not on hours worked; and (3) did not timely disclose a conflict of interest with a subimplementer.</td></tr>
</table>

[71] Mission action refers to actions that USAID/Pakistan took to close the recommendation and is supported by documentation provided by the Office of the Chief Financial Officer, Audit, Performance and Compliance Division (M/CFO/APC). According to ADS 595.2(e), M/CFO/APC “Determines when audit recommendation final action has been taken.”

<table>
<tr><th colspan="2">Audits With Questioned Costs and Funds for Better Use[71]</th></tr>
<tr><td>Recommendations:
1. Immediately terminate the task order issued under the General Services Administration’s Federal Supply Schedule contract awarded to Management Systems International and put any remaining funds to better use.
2. Determine the allowability of ineligible questioned costs for technology services that are outside the scope of work. These billings totaled $1,303,533.
3. Determine the allowability of ineligible questioned labor costs. These billings totaled $3,590,098.
4. Determine the allowability of ineligible costs for items outside the scope of work, i.e., travel, other direct costs, subcontractors, general services and administration fees, and subcontract handling fees. These billings totaled $2,143,628.
5. Determine the allowability of $28,000 in ineligible questioned costs for the salary expenses of Management Systems International’s (MSI) chief of party’s spouse (conflict of interest).</td><td>Mission Action: According to USAID officials, the mission terminated the task order issued under the Federal Supply Schedule contract awarded to MSI effective June 30, 2013. Of the estimated $47 million remaining balance under the contract, approximately $21 million was subobligated into a “bridge” contract with MSI to continue services until a new contract could be awarded.[72] The remaining $26 million was set aside as a separate competitively bid follow-on award known as PERFORM. In April 2015, the mission awarded the PERFORM as $96 million, cost plus fixed fee contract to MSI.

The mission determined that all questioned costs were allowable.</td></tr>
<tr><td colspan="2">Finding: “Audit of USAID/Pakistan’s Power Distribution Program” (Report No. G-391-14-001-P). In September 2010, USAID/Pakistan awarded a 5-year, $230 million (as amended) task order to a U.S.-based organization to help improve the performance of Pakistani electricity distribution companies. The audit found that while the task order disallows weekend and overtime pay, the company reimbursed employees for both at 100 percent of the hourly rate.</td></tr>
<tr><td>Recommendation: Determine the allowability of ineligible questioned costs of $110,400, including $81,225 billed for overtime and $29,175 for weekend pay.</td><td>Mission Action: According to USAID officials, of the total $110,400 in questioned cost, $81,225 is allowable and $29,175 is unallowable. USAID/Pakistan recovered $29,175 through credit adjustments of the implementer’s vouchers.</td></tr>
<tr><td colspan="2">Finding: “Audit of USAID/Pakistan’s Activities Related to Jinnah Post Graduate Medical Center and Jacobabad Institute of Medical Sciences” (Report No. G-391-15-002-P). USAID/Pakistan awarded the 5-year, $180 million (as amended) Pakistan Earthquake Reconstruction and Recovery Program to design and reconstruct schools and health-care facilities and other infrastructure projects throughout Pakistan. The audit found that the mission approved an incorrect currency exchange rate for the Jacobabad Institute project.</td></tr>
</table>

[72] Defense Logistics Acquisition Directive Part 2, Subpart 2.1 defines a bridge contract as a noncompetitive extension with an existing contractor to cover the period between the end of the existing contract and the competitive award of a new contract.

Audits With Questioned Costs and Funds for Better Use[71]	
Recommendation: Determine the allowability of and recover, as appropriate, ineligible questioned costs of $1.6 million.	**Mission Action:** A management decision was reached in September 2015 to recover $38,956 based on actual costs paid versus the $1.6 million question, which was based on budgeted amounts.

USAID | PAKISTAN
FROM THE AMERICAN PEOPLE

MEMORANDUM

Date	**July 22, 2016**
To	**Nathan Lokos, Director, OIG/Pakistan**
From	**John Groarke, Mission Director, USAID/Pakistan**
Subject	**Management Decision on the Performance Audit of USAID/Pakistan's Efforts to Achieve Long-Term Development under EPPA**
Reference	**Draft Audit Report dated 5/18/2016**

"Leadership means a wise application of military power, and rallying the world behind causes that are right. It means seeing our foreign assistance as part of our national security, not charity."

President Barack Obama
State of the Union Address
January 12, 2016

Over the last five years, U.S. assistance overseas has undergone a transformation. Whereas diplomacy, development, and defense programs previously operated independently of each other, changing global realities increasingly necessitate that they work in concert. As the 2015 National Security Strategy emphasizes, development has a central role in the forward defense and promotion of America's interests.[1] Our delivery of economic assistance to Pakistan is therefore guided by our goal of advancing America's interest in a secure, stable, and prosperous Pakistan that combats terrorism and promotes regional stability and economic integration.

With funding authorized by the Enhanced Partnership with Pakistan Act (EPPA), USAID has made significant progress toward achieving this goal, which aligns with the Government of Pakistan's own development agenda as articulated in Pakistan's *Vision 2025* strategy.[2] Indeed, the EPPA was intended to "supplement, not supplant" Pakistan's own efforts in promoting stability, security, and prosperity.[3] USAID is proud of its accomplishments in Pakistan with EPPA-authorized funding. As a responsible steward of taxpayer money, USAID has successfully delivered critical humanitarian and development assistance despite militant insurgency, natural disaster, and a variety of common challenges the Agency faces in developing countries worldwide.

Interagency Collaboration

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[1] According to the 2015 National Security Strategy, "the use of force is not, however, the only tool at our disposal, and it is not the principal means of U.S. engagement abroad, nor always the most effective for the challenges we face. Rather, our first line of action is principled and clear-eyed diplomacy, combined with the central role of development in the forward defense and promotion of America's interests."

[2] Pakistan. Planning Commission, Ministry of Planning, Development & Reform. *Pakistan 2025, One Nation – One Vision.* 29 May 2014. Web. 01 June 2016.

[3] Title 1, Sec. 4 (2) of the EPPA states that "United States assistance to Pakistan is intended to supplement, not supplant, Pakistan's own efforts in building a stable, secure, and prosperous Pakistan."

USAID has acted swiftly and effectively in Pakistan while navigating new interagency partnerships that emerged from a common desire to deliver tangible and lasting results via EPPA-authorized funding. The 2010 Quadrennial Diplomacy and Development Review, which elevated development as a pillar of American foreign policy equal to diplomacy and defense, affirmed USAID's role as the U.S. government's lead development agency.[4] In this leadership role, USAID/Pakistan and USAID's Office of Afghanistan and Pakistan Affairs have worked in tandem with interagency partners to ensure USAID's development priorities reflect and support the broader strategic, economic, and humanitarian imperatives of the U.S. government. These partners include, among others, the Special Representative for Afghanistan and Pakistan Affairs and Embassy Islamabad's Office of Economic and Development Assistance (ASSIST) office. Their involvement reflects the increasingly complicated environment in which USAID operates overseas, where development and defense priorities are multi-dimensional and U.S. interests are diverse.

USAID/Pakistan agrees with many of the Audit's official recommendations, and indeed had already begun to identify and institute improvements prior to the Audit's initiation. Nevertheless, the broader narrative of the Audit mischaracterizes the nature of development assistance and interagency coordination and underestimates the degree to which the State Department and USAID/Pakistan worked together to achieve our overlapping diplomacy, development, and security objectives. The Audit's characterization of the State Department's relationship with USAID/Pakistan also discounts the necessity of an interagency approach in Pakistan, where diplomatic, security, and development challenges intersect. While the Mission agrees that there is room to improve, USAID's work does not and cannot exist in a vacuum, but must remain nimble and responsive to a sometimes rapidly changing environment. During the EPPA period, for example, the Pakistan Army launched a major military operation in the Federally Administered Tribal Areas (FATA) in 2009, which helped root out terrorists but also displaced thousands of families; in 2010, devastating floods affected up to 20 million Pakistanis, creating a new humanitarian crisis; also in 2010, Pakistan passed the 18th Amendment to its Constitution, which ceded many responsibilities to the provinces, requiring USAID to redesign some programs and build new relationships with provincial leaders. Finally, a series of events in 2011, including the raid on the compound of Osama bin Laden, worsened relations and prompted the Government of Pakistan to reconsider issuing visas, granting permission to travel to project sites, or even permitting the initiation of new projects. Throughout this sometimes turbulent period, USAID collaborated with its interagency colleagues to respond to the new challenges while carrying out joint priorities.

USAID and the State Department agree on the priorities for our civilian assistance, which reflect the imperatives of the U.S. and Pakistani governments and of sustainable development. USAID/Pakistan's strategy – focusing on five development sectors, including energy, economic growth/agriculture, stabilization, education, and health – guides our current Mission Strategic Framework and was brokered between USAID and the State Department in 2011 at the highest levels, by the then-Deputy Secretary of State and the USAID Administrator. In addition, the Embassy's Integrated Country Strategy (ICS) has served as a whole-of-government strategic planning document that has codified coordination between State, USAID, and other U.S. government agencies on identifying joint policy and foreign assistance objectives in Pakistan. While the Audit rightly underscores the need to craft a Country Development Cooperation Strategy (CDCS), the Mission's strategic framework and the complementary ICS together have served as remarkably resilient consensus planning tools since 2011. Indeed, had the Mission embarked on the time-intensive process to prepare a CDCS five years ago, it would have reduced the amount of time and resources that were devoted to implementing the goals articulated in the EPPA and

[4] United States. U.S. Department of State and USAID. *Quadrennial Diplomacy and Development Review: Leading through Civilian Power* (2010): 75. Web. 01 June 2016.

would have limited the Mission's ability to engage in a continuous process of adjustment based on lessons learned.

Beyond the development of the current five-sector strategy and the ICS, State-USAID cooperation continued through regular interactions from 2011 through 2013, between State's Deputy Secretary and senior USAID leadership, often including the Administrator. In these engagements, interagency leaders brokered decisions on assistance priorities transparently and collaboratively. At times some participants disagreed with a course of action – and, in a complex environment such as Pakistan it is virtually impossible to satisfy every interagency participant – but outcomes were the product of joint decisions made by the senior leadership of both State and USAID. Healthy interagency debate is the deliberative process through which good policy, which balances multiple considerations, is achieved, and this was frequently applicable to the intensive State-USAID coordination around Pakistan assistance. Today, this spirit of collaboration is stronger and more mature than ever at Embassy Islamabad, where U.S. government agencies work together, knowing that effective interagency coordination best serves the shared interests and development priorities of the U.S. and Pakistani governments. To the extent there are differing views between the agencies, they are resolved consensually and professionally, with a view toward achieving agreed-upon objectives.

We appreciate that the Audit identified challenges that arose during the EPPA period given the need to balance and prioritize overlapping and sometimes competing defense, diplomacy, and development objectives. It is likely that USAID and the Department of State will again face these challenges given the broad array of national security imperatives facing our government, and the need to promote long-term sustainable development. To address this challenge, the USAID Administrator has engaged the leadership of the Department of State and has had very positive discussions about solutions, including better reconciling these interests at the front end of planning and programming, so that leadership of both agencies can help our staff in the field pursue both objectives simultaneously. The intent of the Administrator is to complete these discussions in the coming weeks so that together, the leadership of both USAID and the Department of State can provide shared guidance.

Prioritization of Development Goals

The Audit's critique that the State Department's focus on "short-term, politically strategic goals conflicted with USAID's long-term development planning" establishes a false dichotomy between short and long-term planning.[5] This critique fails to acknowledge the degree to which our investments must build upon each other to create the long-term change for which they are intended. The EPPA itself, while underscoring the need for long-term development, authorized a wide range of complementary short, medium, and long-term assistance activities, all of which would work in tandem to achieve our overarching development goals. Indeed, the work of USAID's Office of Transition Initiatives in Pakistan is guided by the principle that communities affected by violence require immediate assistance to improve their resiliency, build their capacity, and stem future violence. In a similar manner, USAID has worked rapidly to provide emergency humanitarian assistance to thousands of internally displaced persons from the FATA, complementing the work of other activities that will take years to complete. For instance, while USAID has worked quickly to address Pakistan's energy shortfall by undertaking high-visibility infrastructure projects, including dams and power stations, we have also worked to improve the operational and financial performance of Pakistan's electric power distribution companies, strengthened the regulatory and governance framework of the power sector, and implemented a national metering

[5] United States. Office of the Inspector General, USAID. *Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development under EPPA, G-391-16-003-P.* Washington: GPO, 2016. 5. Print.

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program. Both types of activities are vital, and while the impact of the former might be more immediate, USAID has not unduly prioritized it at the expense of the latter.

Likewise, the Audit's statement that USAID/Pakistan "was challenged to implement its development objectives under the State Department's direction, which focused on stabilization and energy" insinuates a false distinction between "real" development work and the overwhelming need to address Pakistan's energy shortfall and stabilize insecure areas of Pakistan.[6] This claim also ignores the degree to which USAID and the State Department took into consideration the development priorities of the new, democratically-elected civilian government of Pakistan. In its *Vision 2025* strategy, for example, the Government of Pakistan recognizes that "sufficient, reliable, clean, and cost-effective availability of energy" is "indispensable in ensuring sustainable economic growth and development," while also asserting that "peace and security are essential for development."[7] Providing "universal access to modern energy services" also is a key United Nations Sustainable Development Goal set by the Government of Pakistan.[8] Moreover, the Government of Pakistan and many non-government entities explicitly requested that USAID/Pakistan use EPPA-authorized funds to support much-needed energy and infrastructure projects. While USAID and the State Department concur with this prioritization, more broadly, the EPPA itself underscores the need to allocate assistance in partnership with the civilian government of Pakistan, to advance Pakistan's own development goals and to demonstrate the United States shares a long-term interest in a stable, secure, and prosperous Pakistan.[9]

In 2014, the World Bank asserted energy was "the biggest constraint on growth" in Pakistan and stressed that "reducing load shedding in the short term is key to revitalizing the economy."[10] With demand for electricity far outstripping supply, power outages in recent years have reduced annual economic growth by at least two percentage points.[11] Frequent load shedding also compromises the quality of social services, as hospitals, schools, and other facilities struggle to deliver services in the absence of affordable, reliable electricity. Between FY2010 and FY2014, USAID helped Pakistan add more than 1,500 megawatts to its national grid, which was enough power to benefit 16 million people and create the conditions necessary to sustain positive development momentum.[12] With the energy USAID added to the grid, to date our programs have helped Pakistani entrepreneurs hire 31,000 new employees, increased incremental sales by $155 million, and provided business development services to more than 175,000 small and medium-sized enterprises. Given its pervasive role in Pakistan's economy, there can be no doubt that energy deserves a significant portion of USAID's assistance funds.

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[6] Ibid., 9.

[7] Planning Commission, Ministry of Planning, Development & Reform. *Pakistan 2025, One Nation – One Vision.*
[8] "SDG Targets Tracker." *Deliver2030.org.* n.d. Web. 01 June 2016.

[9] Title III, Sec. 301 (4) of the EPPA mandates that the Secretary of State submit a Pakistan assistance strategy report that includes, among other topics, "a description of the role to be played by Pakistani national, regional, and local officials and members of Pakistani civil society and local private sector, civic, religious, and tribal leaders in helping to identify and implement programs and projects for which assistance is to be provided under this Act, and of consultations with such representatives in developing the strategy."

[10] World Bank. 2014. *Pakistan - Country partnership strategy for the period FY2015-19.* Washington DC; World Bank Group. 04 Apr 2014. 6, 15. Web. http://documents.worldbank.org/curated/en/2014/04/19388413/pakistan-country-partnership-strategy-period-fy2015-19.

[11] Bennmessaoud, Rachid; Basim, Uzma; Cholst, Anthony; Lopez-Calix, Jose R. 2013. *Pakistan - The transformative path.* Washington DC : World Bank. 09 Aug 2013. 17. Web. http://documents.worldbank.org/curated/en/2013/08/18123878/pakistan-transformative-path

[12] To date, USAID has added 2,460 megawatts to Pakistan's grid, which is enough power to benefit 28 million people.

Similarly, USAID's investments in promoting stability are consistent with the 2015 National Security Strategy, which emphasizes the need to help states "provide for the basic needs of their citizens" and thereby "avoid being vulnerable hosts for extremism and terrorism."[13] USAID promotes long-term development by strengthening communities in violence-affected areas and building the institutions necessary for sustainable development.[14] With EPPA-authorized funds, USAID has helped nurture a nascent but effective civil society in vulnerable regions of Pakistan, supporting over 200 civil society organizations engaged in advocacy work and empowering nearly 62,000 individuals from marginalized groups by connecting them to political parties. USAID has also worked to enhance the capacity of elected local government officials and to improve the delivery of essential services. Such programs recognize that confidence and trust in public institutions are critical components of a stable future for Pakistan, which clearly is in the national security interest of the United States.

Local Partner Capacity-Building

In accordance with the National Security Strategy's dictate to help states "provide for the basic needs of their citizens," the EPPA was intended, in part, to provide "support for strengthening the capacity of the civilian Government of Pakistan to carry out its responsibilities at the national, provincial, and local levels."[15] As the Audit itself notes, best development practices call for the utilization of host government institutions and systems whenever possible.[16] Bearing in mind these objectives, USAID programmed significant funding through both newly-elected civilian government entities and Pakistani non-governmental and private sector organizations. While the Department of State played a role in this process, this decision was not, as the Audit incorrectly asserts, wholly imposed by State. In 2010, Agency-wide reforms, known as USAID Forward, directed Missions to partner with local governments, the private sector, civil society, and academia to ensure that local systems own, resource, and sustain the development results in which we invest.[17] USAID/Pakistan's efforts to implement our assistance through local partners are aligned with these reforms.

While empowering local institutions is essential, we must also tailor our investments to a scale appropriate for each country in which we work. In Pakistan, and throughout the world, we are engaged in a continuous process of adjustment based on lessons learned. When USAID/Pakistan realized there were limits on the amount of funding that could be absorbed by local entities in Pakistan, USAID and the State Department jointly agreed to reduce the amount of such funding, which has resulted in a gradual adjustment in the level of government-to-government (G2G) assistance. Despite the Audit's implication that our G2G assistance has consistently comprised an unusually large portion of USAID/Pakistan's

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[13] United States. The White House. *National Security Strategy* (2015): 11. Web. 01 June 2016.

[14] United States. U.S. Department of State and USAID. *Quadrennial Diplomacy and Development Review: Enduring Leadership in a Dynamic World* (2015): 21-27. Web. 01 June 2016.

[15] United States. Congress. *Enhanced Partnership with Pakistan Act of 2009*. 111th Cong. Washington: GPO, 2009. Title 1, Sec. 101, (b)(1)(c). Print.

[16] The *Addis Ababa Action Agenda* of 2015, which was preceded by similar fora in Paris (2005), Accra (2008), and Busan (2011) reiterated that "each country has primary responsibility for its own economic and social development and that the role of national policies and development strategies cannot be overemphasized."

[17] United States. U.S. Agency for International Development. *Local Systems: A Framework for Supporting Sustained Development.* April 2014. Print.

programs, this type of assistance has been significantly reduced from a high of 52.5 percent in FY 2010, to just 25 percent in FY2015 and FY2016.

Additionally, while it is indisputable that for some time the level of appropriations outpaced implementation and produced a large funding pipeline, USAID/Pakistan's response has been to deliberately prioritize effective programming at an appropriate pace over rushed spending. The Audit points to delayed implementation and spending as examples of programs failing to meet their goals. While the Mission agrees delays are problematic, they do not imply programs would not ultimately meet their objectives over a longer timeframe. In fact, much of the funding that comprised the initial pipeline is still being expended in programs that USAID is successfully implementing today. Altogether, the United States has committed over $5 billion in civilian assistance to Pakistan using FY 2010 – FY 2014 funds and spent in that timeframe an additional $1 billion in emergency humanitarian assistance, totaling over $6 billion in civilian assistance committed to Pakistan.

Furthermore, the Audit inaccurately claims the Mission's Stage 1 Rapid Appraisal of Pakistan's country systems, which was undertaken to determine the appropriateness of G2G awards, was rejected by USAID/Washington. The Audit further claims this rejection led the Mission to seek a waiver for all ADS 220 requirements, thereby enabling it to implement G2G projects.[18] The Stage 1 Rapid Appraisal was never submitted for approval, and the Mission's reasons for seeking a waiver are outlined in the waiver itself. Further, the Mission has recently obtained a revised, more limited waiver which requires the Mission to conduct assessments of those Government of Pakistan entities that will be receiving funding, thus maintaining the Mission's ongoing compliance with Agency policy.[19]

The Audit's critique of the Mission's G2G assistance also overlooks our extensive and effective partnerships with local private sector entities, as envisioned in the EPPA.[20] These public and private sector partnerships were not, as the Audit asserts, wholly imposed by the State Department, but rather reflect the Mission's efforts to implement the aforementioned Agency-wide guidance on finding and supporting local solutions, as well as the Agency's overall effort to partner with the private sector to further our development objectives. In fact, while our G2G assistance was significantly reduced to account for the public sector's absorption capacity, the assistance implemented through the local private sector and non-governmental partners has flourished and now accounts for more than one-third of our entire portfolio. With EPPA-authorized funding, USAID has provided legal and regulatory technical assistance to Pakistan's private sector, improved access to credit for micro-, small-, and medium-sized enterprises, and forged new relationships with Pakistan's entrepreneurial community. The Mission has leveraged its partnerships with the private sector to make smart investment decisions that will create jobs, spur economic growth, and generate profits for investors. This enhanced role for the private sector demonstrates that we are moving beyond a traditional aid-based relationship toward a more mature relationship based on mutually-beneficial business opportunities.

While we recognize and learn from the constraints and risks inherent in working directly with local partners, the Mission firmly believes that our efforts to strengthen their capacity and take into

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[18] Office of the Inspector General, USAID. *Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development under EPPA, G-391-16-003-P,* 14.

[19] On December 9, 2013, the Administrator approved a waiver of ADS 220 procedures through FY 2014 funds. On February 22, 2016, Mission Director John Groarke requested a waiver for sub-obligations made with FY 2015 or later funds on or prior to September 30, 2020.

[20] Title 1, Sec. 101, (c) (3) of the EPPA states that the "President is encouraged, as appropriate, to utilize Pakistani firms and community and local nongovernmental organizations in Pakistan, including through host country contacts, and to work with local leaders to provide assistance under this section."

consideration their own development priorities will pay dividends for decades to come. As the Audit notes, "aid is most likely to catalyze sustained development when it reinforces a country's internally determined development priorities and strengthens the country's systems."[21]

We are now seeing the fruits of our investments, with host government and local organizations achieving real development results while strengthening their ability to effect change across Pakistan. With EPPA authorized funding, the Mission worked together with the Government of Sindh province to successfully construct and manage the new Jacobabad Institute of Medical Sciences, which is now capable of providing healthcare services to more than one million people in one of Pakistan's most impoverished regions.[22] Our support for Pakistan's Higher Education Commission has helped over 7,000 internally displaced students receive scholarships to attend Pakistani institutes of higher education. Our partnership with three private equity management companies has made $150 million available for investment in equity capital to small and medium-sized enterprises throughout Pakistan with high-growth potential. And finally, Satpara Dam, which the Water and Power Development Authority of Pakistan constructed with USAID support, has added enough energy to the local grid to meet the needs of more than 160,000 local residents. Although limitations in local transmission and distribution have prevented the dam from delivering the full amount of power it is capable of generating, it has successfully mitigated flooding in the region, irrigated almost 9,000 acres of downstream land, and provided 3.1 million gallons of water per day for domestic use. We are proud of the partnerships we have cultivated with the private sector and the Government of Pakistan, which have a vested interest in sustaining the progress we have made together.

Staffing and Physical Security Constraints

As the Audit notes, both staffing levels and physical security considerations have historically presented hurdles to the successful implementation of USAID/Pakistan's activities.[23] The frequent rotation of personnel and their inability to travel freely to project sites can disrupt project implementation, create challenges to monitoring activities, and inhibit the establishment of productive relationships. Field visits often require special government permission and an armed security escort. Meetings outside the embassy are often limited to those deemed essential. Security threats targeting USAID projects can result in unforeseen costs or delays. Sometimes only one or two partners are able or willing to work in those areas in which development is most needed, increasing costs and rendering USAID unavoidably dependent on a small cadre of organizations. Despite such constraints, USAID/Pakistan's staff have risen to the challenge and made significant progress toward our development goals. To date, EPPA-authorized funding has contributed to various activities that have irrigated over 490,000 acres; trained over 37,000 health workers, and helped more than 440,000 children learn to read. And we know much more remains to be done. Today, staffing at the Mission has stabilized and will be adjusted over time to ensure USAID/Pakistan continues to build on these successes.

Delivering effective development assistance is among the great challenges of our time. The scale of U.S. investment during the EPPA implementation years, the staggering level of poverty afflicting the country, and the gravity of Pakistan's role in the region, and indeed the world, required the Mission to rise to an imposing challenge. We recognize our programs were not without flaws, but the Agency has not wavered

[21] Office of the Inspector General, USAID. *Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development under EPPA, G-391-16-003-P,* 13.

[22] The Audit inaccurately claims that the Sindh government's proposed budget for this facility was unlikely to be sustainable. In fact, the Government of Sindh has funded operating expenses since the hospital opened. The bridge funding referenced in the Audit covered limited services for the hospital until new hospital management was able to contract these services on its own. The Government of Sindh is now fully funding and managing these services.

[23] Ibid., 17, 32.

from its commitment to learning from its mistakes and persevering to overcome challenges. OIG audits are an integral component of this process, as they complement the Agency's own practice of evaluating the impact of assistance, enabling us to continually improve. What we learn from our experience in Pakistan will be instructive as USAID continues to serve as the United States' leading development organization. In today's world, that often means working in countries with security challenges, where the rule of law is not strong, and where we must double our efforts to build local capacity. In Pakistan, despite these challenges, the Mission has achieved results of which the Agency and the American people can be proud.

Our efforts have not always been seamless, but they have always been undertaken with a greater mission in mind. With the EPPA-authorized funds, we have built or rehabilitated almost 1,000 schools, constructed more than 900 kilometers (559 miles) of roads, provided healthcare services to 2.9 million women and children, and improved the livelihoods of more than 100,000 farmers.[24] These efforts have been guided by our belief that when societies are healthy, educated, resilient, and empowered economically, they are more likely to trust their public institutions and less likely to view extremism as a viable alternative. Therefore, while our goal of a secure, stable, and prosperous Pakistan serves the interests of the Government of Pakistan, it also serves the interests of the American people. If diplomacy and development are the first lines in the defense and promotion of America's interests, as the National Security Strategy underscores, then we firmly believe our achievements through EPPA have made America more secure and have advanced the strategic objectives of the United States.

[24] The numbers listed above reflect the results that were achieved during the period of performance referenced in the EPPA legislation (FY2010-FY2014). To date, USAID/Pakistan has built or rehabilitated over 1,020 schools, constructed more than 1,100 kilometers (684 miles) of roads, provided healthcare services to six million women and children, and improved the livelihoods of more than 253,000 farmers

Mission Response to Audit Report Recommendations

Management responses are summarized in a table at the end of the narrative.

Strategic Approach

The Audit rightly notes that to maximize U.S. investments overseas it is essential that the roles and responsibilities among agencies be clarified. In some conflict-affected countries, USAID procedure, in practice, has conformed to strategic imperatives as outlined by the Department of State. Recognizing that this relationship has not always been managed successfully on an ad-hoc basis, all parties would benefit from more concrete guidance on interagency roles and responsibilities in those countries in which the State Department plays a leading role in the strategic direction of development programs. Therefore, the Mission and the Bureau of Policy, Planning, and Learning agree with **Audit Recommendation Two**.

The Bureau of Policy, Planning, and Learning has already begun to revise ADS 201, which requires all Missions to develop a Country Development Cooperation Strategy (CDCS). The revisions to ADS 201 are designed to address the specific needs of Missions operating in difficult environments, including in critical priority countries, and provide for maximum flexibility in strategic planning. While the revised ADS itself will not issue explicit instructions dictating USAID's roles and responsibilities in each critical priority country, it will allow for the customization of aspects of the CDCS and will provide guidance on how Missions should conduct the CDCS process in a manner that formalizes each Mission's unique interagency relationships. Such relationships are context-dependent, and attempting to codify them in a worldwide ADS would inevitably lead to frequent exceptions. Therefore, the parameters-setting phase of each individual Mission's CDCS development is the appropriate venue for the Mission, the relevant regional bureau, the Bureau of Policy, Planning, and Learning, and appropriate State Department offices to hold candid conversations about goals, priorities, and the appropriate levels of interagency collaboration. Furthermore, in the event that the guidance provided by the revised ADS 201 is insufficient for a particular Mission's needs, the ADS will also provide a waiver process.

The revisions to ADS 201 will emphasize learning and adapting during strategy implementation and will provide guidelines for amending strategies, which will help ensure strategies remain relevant in rapidly evolving contexts. Embarking on the CDCS process during the EPPA's period of implementation was not a viable option, as the ADS that was in place at the time unfortunately did not provide these critically important provisions. With the added flexibility that is forthcoming in the revised ADS, the Mission feels well-poised to undertake this planning process at this time.

Given the critical role of the CDCS in formalizing USAID's role and responsibilities within the interagency, the Mission concurs with **Recommendation One** and is presently in the planning stages for moving the process forward. To comply with Agency guidelines, the Mission will begin the CDCS preparations immediately by carrying out the necessary analyses, assessments, and document reviews. In the meantime, the Mission will continue to use the Integrated Country Strategy and the Mission's Strategic Framework, which was developed in February 2013 and forms the core of a CDCS, to guide reporting on current programs, the development of new programs, and the evaluation of the impact of our programs.

The Mission agrees with the Audit's finding that both USAID and the State Department would benefit from an unambiguous delineation of their respective roles and responsibilities in those countries in which the State Department plays a leading role in the management of development programs. This involves more than just an interagency forum on the role of development in critical priority countries, however. U.S. government policy and guidance on a "whole-of-government" approach to development often fails to address the details of the approach, thus leaving the interagency management of such programs to be determined on an ad hoc basis, with personalities often determining the roles and responsibilities of agencies. This sometimes leads to decision-making by officials who may not be fluent in USAID and broader U.S. government regulations, particularly those concerning planning, procurement, and financial management. As part of the forum, moreover, USAID staff could learn more about the role that development assistance plays in broader U.S. foreign policy as articulated by the White House and implemented by the State Department. Although this issue is not unique to Pakistan, the mission is well-positioned to present a plan to the USAID Administrator given its recent experience. We therefore agree with **Recommendation Three**, and the Mission will prepare a memorandum to the Administrator's office that outlines the Mission's unique experiences and recommendations for interagency collaboration, within the context of our work in Pakistan. The Administrator's office will then lead a broader, Agency-wide effort to present USAID's development perspective to other U.S. government partners operating jointly in critical priority countries.

Monitoring and Evaluation

In addition to drafting a CDCS, the Mission has also launched a review of internal standards for program design, as well as monitoring and evaluation (M&E). This review will seek to ensure our technical teams are properly equipped to set appropriate project goals, track progress, recognize problems if and when they occur, and take corrective action when necessary. To address the need to account for USAID's contributions to higher-level development impact, as outlined in **Recommendation Four**, the Mission is planning to develop a report that would provide a macro analysis of USAID program contributions to high-level development outcomes. The report will summarize the collective contributions of the donor community and seek to draw links between donor investments, including that of USAID, and development impact. It is important to note, however, that development outcomes are a result of many contributing factors, only some of which can be attributed directly to USAID's programs. The new ADS 200 series that is currently under Agency-wide review, once approved, is expected to reinforce this assertion, as the ADS will not require Missions to be responsible directly for results at the development objective level.

At the intermediate results and sub-intermediate results levels, the Mission has been more successful in monitoring and evaluation, despite ongoing security challenges and Government of Pakistan restrictions. Each individual project has established targets, baselines, and timelines through its project-level M&E plans. Our implementing partners collect performance indicator data on a quarterly basis and upload this data into USAID/Pakistan's management information system. The data we receive from our partners is reviewed and verified by USAID project managers and is then triangulated with information received from regular site visits and periodic performance evaluations. Together, all of this information helps us to assess the impact of programming, inform mid-course corrections, and design new activities. Nevertheless, USAID is working to improve consistency and accountability of data collection.

The Mission recognizes that proper data collection, filing, and reporting are critical to ensuring our programs are effectively implemented, evaluated, and adjusted as needed. This is why the Performance Management Unit (PMU) of the Program Office directs that all monitoring and evaluation action plans, including follow-on steps on evaluation findings and recommendations are kept by designated individuals within the Mission. The Contracting Officer's Representative of the Mission's monitoring and evaluation contract has already begun to implement a plan to ensure Mission Order 200.2 is provided to the appropriate staff members at the close of each evaluation, as outlined in **Recommendation Nine.** In addition, PMU has already established an evaluation action plan template for tracking and documenting decisions and actions taken as a result of evaluation findings and recommendations; PMU has piloted this evaluation action plan template with three evaluations. PMU will continue to improve this template and will establish Standard Operating Procedures for the use of monitoring and evaluation action plans, in accordance with **Recommendation Ten**.

To ensure a Mission-wide systematic approach to site visits and site visit reports, the Program Office has added a site visit planning section into the Mission's Performance Management Plan (PMP), which includes a site visit report template for teams to customize to meet their needs, in accordance with **Recommendation Sixteen**. All site visit reports will be required to be uploaded into USAID/Pakistan's management information system during the regular quarterly data calls. As stipulated in **Recommendation Seventeen**, the Mission's Office of Acquisition and Assistance will also revise designation letters for all Agreement and Contract Officer's Representatives (AORs/CORs) to include a checklist of items that project managers should review during site visits and specific language requiring AORs/CORs to complete and file site visit reports within two weeks of completion of travel. While the Mission agrees with the recommendations listed above, we also note these adjustments are minor. Since the EPPA was passed in 2009, the Mission has conducted, on average, nine rigorous, independent performance evaluations per year, in addition to case studies, assessments, and regular monitoring through site visits as guided by Agency standards.

*(Note: In **Recommendation 6** the Audit stipulates that if the Mission extends its award to the Rural Support Programmes Network, then the scope of the award should be reduced. Since the referenced cooperative agreement is closing on October 10, 2016, and will not be extended, we respectfully request the closure or removal of this recommendation upon issuance of the final audit report. End Note.)*

Working with Local Counterparts

On top of its efforts to execute an already ambitious development agenda in Pakistan, as the Audit notes, the Mission was challenged early on to implement half of the EPPA-authorized funds through Pakistani public and private organizations. While it was evident from the planning stages that this approach would likely prove more difficult than working with more traditional development partners, such as international non-governmental organizations (INGOs) or private development companies, providing direct assistance to local awardees comprises a key component of recent USAID procurement reforms, known as USAID Forward, and aligns with industry best practices for catalyzing sustainable development. As the Audit points out, these partners can pose a greater risk to the U.S. government, transferring more responsibility on Mission staff to properly vet potential awardees. Audit Report **Recommendations Five, Eleven, Fourteen and Fifteen** for improving these investments reinforce existing Agency guidance[25] and Mission Orders.[26] The Mission therefore concurs and will provide in-house refresher training toward these objectives. The Mission will also reexamine the existing policy on cost estimates for Government-to-Government activities and issue additional guidance on managing costs in an environment with shifting exchange rates, as suggested in **Recommendation Eight**.

Risk, however, is intrinsic to this model of development. Knowing as much, the Mission is focused on building up the skills of local talent. To address deficits in local capacity, USAID/Pakistan created the

[25] For Recommendation #5, the following existing Agency guidance is applicable: CIB 92-16 Pre-award Audits and Surveys dated October 21, 1992 and ADS 303.3.8 Pre-Award Certifications, Assurances, and Other Statements of the Recipient and Solicitation Standard Provisions, 303.3.9 Pre-Award Risk Assessment, 303.3.9.1 Pre-Award Surveys. For Recommendation #15, FAR Part 9 states that "to be determined responsible, a prospective contractor must…have the necessary organization, experience, accounting, and operational controls, and technical skills, or the ability to obtain them."

[26] For Recommendation #11, paragraph N of Mission Order 200.10 *Government-to-Government Assistance* dated June 25, 2015 states that "the applicable PM is responsible for maintaining a complete and up-to-date file of all project documents. Please refer to Mission Notice 38/2015 that applies to all records that are created, received, and maintained by the staff of USAID/Pakistan. For central storage of required G2G documents, Annex J provides guidance to OPM Backstops on the storage of documents on ASIST Database." In addition, item #8 in the "Process" section in Annex D of Mission Order 200.10 states that "the Cost Reasonableness Checklist must be completed and included in the budget annex to every action memorandum for a PIL sub-obligating or allocating funds."

Assessment and Strengthening Program (ASP) (2010-2015). ASP worked with Pakistan's government agencies and non-governmental organizations to provide guidance on building the institutional infrastructure needed to ensure their management capacity met standards for transparent, accountable, and effective utilization of USAID resources. An independent evaluation[27] of the program found that, overall, "ASP was effective in improving compliance of beneficiary organizations" through improved documentation and beneficiary employees' awareness. The Mission will build on this progress with a follow-on activity, which is currently in the design phase. In addition, PMU will address **Recommendation Seven** by developing and implementing a plan to identify and measure indicators that better capture the impact of the Mission's work in capacity development.

Taxes and Legal Challenges

USAID/Pakistan, based on consultation with the USAID Office of the General Counsel (GC), disagrees with the OIG's interpretation of the tax provision contained in past appropriations acts and is of the opinion that the Mission has not violated this statutory requirement. USAID/Pakistan believes it has not triggered withholding or reimbursement requirements contained in U.S. appropriations law.

While the OIG's recommendations may not have any direct impact on our compliance with U.S. appropriations law, they do raise important policy issues. As such, the Mission agrees with the recommendations and proposes that USAID/Pakistan's Office of Financial Management (OFM) will, in consultation with USAID/Pakistan's Office of Acquisition and Assistance, the USAID/Pakistan Resident Legal Officer (RLO) and GC, as needed, develop an action plan to assess, based on existing and available information, whether there is a current tax liability and, if there is such a liability, address such liability in accordance with the relevant legal requirements and in consultation with the U.S. Department of State. To the extent that an existing tax liability is discovered that does not require reimbursement or withholding as a matter of law, but that may violate the exemption provisions of the bilateral assistance agreement, the Mission will consult with the Department of State to determine an appropriate course of action.

Regarding any potential future taxation, the Mission proposes that OFM, RLO and GC, as needed, assess the legal and policy options for seeking reimbursements for improperly paid taxes or withholding unremitted taxes. The Mission will work with the Department of State to implement appropriate procedures for seeking such reimbursements or taking steps to withhold unremitted taxes. Interim guidance regarding the procedures for seeking tax exemption from the Government of Pakistan were issued to implementing partners on January 26, 2016 and a mechanism for tracking pending, issued, and denied tax exemption certificates has been instituted with the Economic Affairs Division. Taken together, these actions demonstrate the Mission's concurrence and response to **Recommendations 12 and 13**.

Provinces

The Mission agrees with the Audit's assessment that our provincial offices have an "exceptional cadre of talented Foreign Service National and U.S. Direct Hire staff." As power and responsibility continue to shift to the provinces under the 18th Amendment to Pakistan's constitution, we anticipate we will increasingly depend on our provincial staff for contact-building and program support. We concur with **Recommendation 18**, and have already solicited assistance from a former USAID Deputy Assistant Administrator and USAID/Pakistan Mission Director who will travel to post this autumn to help the Mission to draft a Mission Order formalizing the roles and responsibilities of the regional offices.

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[27] Management Systems International under the Monitoring and Evaluation Program. *Assessment and Strengthening Program: Interim Evaluation Report*, P.2.

Recommendation	Mission Response	Follow-on Actions	Expected Completion Date
1	Agree	Mission will provide an Action Plan for development of a new CDCS.	December 31, 2016
2	Agree	PPL will release revised ADS 201	December 31, 2016
3	Agree	Mission will provide a memo to the Administrator's office, which will lead an Agency-wide effort to address this issue.	October 31, 2016
4	Agree	Mission will prepare a macro analysis of USAID program contributions to high level development outcomes.	February 1, 2017
5	Agree	Mission will provide in-house refresher training to all OAA/Pakistan personnel on existing Agency guidance.	December 15, 2016
6	Agree	RSPN award closing in October 2016	N/A
7	Agree	PMU will develop and implement a plan to identify and measure the impact of the Mission's capacity development efforts.	July 18, 2017
8	Agree	Mission will reexamine existing policy on cost estimates for G2G activities and issue new guidance.	March 31, 2017
9	Agree	M&E COR ensures Mission Order 200.2 distributed in accordance with this recommendation.	Completed
10	Agree	PMU will develop SOPs for the use of M&E action plans.	December 31, 2016
11	Agree	Mission Order 200.10 already provides sufficient guidance. A new Mission Notice reminding all relevant actors of their responsibilities will be issued.	September 1, 2016
12	Agree	Mission will develop an action plan to assess whether there is current tax liability and, if there is such liability, how to address such liability.	March 31, 2017
13	Agree	Mission will assess legal and policy options for seeking reimbursements for any improperly paid taxes or withholding of unremitted taxes.	March 31, 2017
14	Agree	Mission will revise Annex 8 of Mission Order 200.6, specifically item #15 of the GLAAS Checklist, to include a link to the Independent Government Cost Estimate (IGCE) Guide and Template issued by M/OAA. Section VI of the template, "Tips for Preparation of the IGCE," requires those responsible for preparing the IGCE to "Document data sources, assumptions, constraints, methodology, and subject matter expert inputs."	December 15, 2016
15	Agree	Mission will provide in-house refresher training to all OAA/Pakistan personnel on existing Agency guidance.	December 15, 2016
16	Agree	Standardized site visit reports will be required to be uploaded and verified on a quarterly basis into the Mission-wide management information system.	December 15, 2016
17	Agree	Mission will add suggested requirement to all AOR/COR designation letters.	December 15, 2016
18	Agree	Mission will issue a Mission Order on roles and funding of provincial offices.	December 31, 2016

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