



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S CASH- FOR-WORK ACTIVITIES IN HAITI

AUDIT REPORT NO. 1-521-10-009-P
SEPTEMBER 24, 2010

SAN SALVADOR, EL SALVADOR



Office of Inspector General

September 24, 2010

MEMORANDUM

TO: USAID/Haiti Mission Director, Carleene Dei
USAID/DACHA/OTI Acting Director, Robert Jenkins
USAID/DACHA/OFDA Acting Director, Mark Ward

FROM: Regional Inspector General/San Salvador, Catherine Trujillo /s/

SUBJECT: Audit of USAID's Cash-for-Work Activities in Haiti (Report No. 1-521-10-009-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report in finalizing the audit report and have included your response in Appendix II.

The report contains seven recommendations intended to improve the effectiveness of USAID's cash-for-work activities in Haiti. Management decisions have been reached on recommendations 2, 3, 4, and 7. Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on these recommendations.

Management decisions were not reached on recommendations 1, 5, and 6. Please provide written notice within 30 days of any actions planned or taken to implement these recommendations.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

U.S. Agency for International Development
Embajada Americana
Urb. y Blvd Santa Elena
Antiguo Cuscatlan, Depto. La Libertad
San Salvador, El Salvador
Tel. (503) 2501-2999—Fax (503) 2228-5459
www.usaid.gov/oig

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SUMMARY OF RESULTS

On January 12, 2010, a major earthquake struck Haiti, killing hundreds of thousands of people and leaving large parts of Port-au-Prince and the surrounding areas in ruins. Much of Port-au-Prince's infrastructure collapsed during the earthquake and subsequent aftershocks, leaving many households in the affected region without access to basic services such as electricity, water, and sanitation. In response to this disaster, USAID moved quickly to help stabilize the devastated nation. USAID's response included the rapid initiation and expansion of cash-for-work (CFW) activities¹ in Haiti.

- Within days of the earthquake, USAID's Office of Transition Initiatives (USAID/OTI) entered into contracts with Development Alternatives Incorporated (DAI) and Chemonics International Incorporated (Chemonics) to provide recovery assistance to Haiti. One objective outlined in both contracts was to initiate an extensive short-term jobs program that would support the Government of Haiti, promote stability, and decrease the chances of unrest. Each contract had a ceiling of \$50 million. As of June 30, 2010, cumulative obligations and expenditures for these contracts totaled approximately \$13.6 million and \$6.9 million respectively.
- USAID/Haiti responded to the earthquake through reprogramming actions and new awards that included CFW components. Specifically, USAID/Haiti reprogrammed \$9.5 million under an active grant with the International Organization for Migration (IOM) to incorporate quick-impact initiatives for income generation. Furthermore, USAID/Haiti awarded IOM a \$7.5 million grant for stabilization efforts, including CFW. As of June 30, 2010, cumulative obligations and disbursements from these grants totaled approximately \$10.3 million and \$6.7 million respectively.
- USAID/Haiti also reprogrammed an agreement with the Cooperative Housing Foundation (CHF) to allow up to \$3.5 million for rubble removal and other CFW activities. In February 2010, USAID's Office of Foreign Disaster Assistance (USAID/OFDA) signed an additional agreement with CHF for about \$21 million to remove rubble and provide emergency shelter; this award included \$1.6 million for CFW laborers. Overall, CHF's postearthquake obligations and disbursements under these grants totaled approximately \$3.2 million and \$2.7 million respectively as of June 30, 2010.

The objectives of this audit were to determine whether USAID is managing these CFW programs effectively and whether the programs apply sufficient internal controls to minimize occurrences of fraud.

The audit found that USAID's management of these CFW projects was resulting in tangible, though limited, contributions to Haiti's recovery efforts (page 4). All four implementing partners had combined rubble removal with CFW efforts to some extent, and the results indicated that efficient rubble removal required substantial investment in trucks and other heavy equipment. However, these equipment costs reduced the funds

¹ Cash-for-work activities have played a part in development assistance in numerous countries, infusing money into local economies by hiring people to renovate or rehabilitate light infrastructure.

available for workers' salaries, and as a result, USAID's CFW activities were reaching far fewer beneficiaries than initially planned with a much more modest stabilizing effect on the intended population (page 7). Specifically, USAID/OTI's CFW effort, which anticipated employing 25,000 beneficiaries daily by May 2010, employed only about 8,000 beneficiaries per day by June 15, 2010.

The audit also found that USAID had allowed its implementing partners to adopt different safety policies and procedures for similar work, and that enforcement of these standards varied from site to site (page 9). By failing to develop and enforce consistent workplace safety rules and accident procedures, USAID increased the risk of serious and avoidable workplace accidents.

With regard to internal controls, the audit found that all implementing partners had developed and implemented effective controls over their worker payroll systems to minimize occurrences of payroll fraud. However, USAID should strengthen controls over the beneficiary selection process. Whereas some implementing partners emphasized broad community involvement in the selection of workers, other implementing partners left worker selection almost exclusively to municipal officials (page 11). This less-inclusive approach increased the risk that political officials may use this program for political and financial gain.

In addition, some implementing partners had weak controls over the selection of project sites (page 12). Although sites for rubble removal were to be selected on the basis of their benefit to entire communities, one implementer was clearing private lots without clear justification or approval, providing significant benefits to the owners of the lots.

Finally, the audit found that the mission had been more proactive than USAID/OTI in validating partners' internal controls. Recognizing that its programs were operating in an environment with high risk for fraud, USAID/Haiti completed thorough reviews of the financial controls of IOM and CHF. However, although USAID/OTI's programs were operating in the same high-risk environment, USAID/OTI had not yet initiated similar financial reviews of DAI and Chemonics (page 13).

To serve more program beneficiaries and increase the overall operational efficiency of USAID CFW activities, the audit recommends:

- Expanding CFW efforts to projects other than rubble removal to provide more extensive and cost-effective employment opportunities for Haitians (page 9).
- Partnering on CFW rubble removal efforts with organizations that can provide the required trucks and heavy equipment (page 9).
- Standardizing policies and procedures regarding safety equipment and response to accidents (page 11).
- Maximizing community participation in beneficiary selection (page 12).
- Requiring the submission of detailed justification for the removal of rubble from private residential sites (page 13).

- Completing validation reviews of any private home sites included in rubble removal efforts (page 13).
- Completing financial reviews of all implementing partners (page 13).

Detailed findings appear in the following section. Our evaluation of management comments follows the findings. Appendix I presents the audit's scope and methodology. Appendix II includes USAID's comments in their entirety.

USAID agreed with four of the seven recommendations. The Office of Inspector General has reviewed USAID's response to the draft report and determined that management decisions have been reached for Recommendations 2, 3, 4, and 7. Management decisions for Recommendations 1, 5, and 6 are pending follow-up actions requested of USAID.

AUDIT FINDINGS

USAID's Cash-for-Work Activities Have Contributed to Haiti's Recovery

USAID-funded cash-for-work (CFW) activities implemented by the International Organization for Migration (IOM), the Cooperative Housing Foundation (CHF), Development Alternatives Incorporated (DAI), and Chemonics International Incorporated (Chemonics), were providing tangible, though limited, contributions to Haiti's recovery. According to data compiled by USAID and its implementing partners, as of June 15, 2010, the CFW projects implemented by these four partners had created over 60,000 short-term employment opportunities² for beneficiaries, including significant numbers of women and youth. The CFW projects had paid a total of \$7.2 million in salaries, amounting to about \$120 per participant. Many of the projects focused on rubble removal, disposing of an estimated 482,000 cubic meters of debris from the earthquake, primarily from sites with high public utility, such as schools and critical roads.

The four implementing partners selected for this audit reported the results shown in the table below.

Results of Cash-for-Work Efforts (unaudited)

Implementing Partner	Number of Short-term Employment Opportunities	Total Salaries Paid (\$)	Estimated Percentage of Women Employed	Estimated Rubble Removed (cubic meters)
IOM	23,109	2,782,687	48	184,319
CHF	4,530	543,565	21	110,000
DAI	10,402	1,248,265	24	108,474
Chemonics	22,464	2,695,729	40	78,993
Total	60,505	7,270,246		481,786

Following the earthquake, extensive rubble and debris prevented Haitians from rebuilding Port-au-Prince and resuming normal lives. Much of the rubble remained in place; when people removed rubble, they relocated it to the center or the sides of roads, making some streets impassable. Meanwhile, many schools, hospitals, businesses, and homes remained blocked. The debris also created an environmental and health hazard. Daily downpours during the rainy season leached toxic chemicals and carcinogens from the debris and sent them into the storm water system and ultimately into drinking water. To help address this situation, USAID's implementing partners have implemented projects offering cash for rubble removal.

² A short-term employment opportunity is defined as 24 days of work at Haiti's minimum wage (\$5 per day), the terms of employment for most CFW beneficiaries.

IOM - IOM initiated numerous rubble removal projects shortly after the earthquake but did not rely extensively on CFW laborers. Rather, IOM used heavy equipment including loaders, bulldozers, and dump trucks to remove the rubble quickly from 48 project sites where schools had collapsed. CFW laborers provided only limited support to the effort, primarily site cleanup and crowd control. Thus, IOM reported moving an estimated 184,000 cubic meters of debris utilizing only 1,500 workers. In these projects, IOM spent only about \$156,000 on salaries compared with about \$2.95 million on trucks and heavy equipment.

Following the school cleanup effort, IOM turned to the more traditional CFW efforts, including projects to rehabilitate canals and reforest rural areas. These types of projects provided significantly more jobs—an estimated 21,600 jobs through June 15, 2010—than did rubble removal, with relatively low investment in materials. For example, according to IOM records, a typical budget for an intensive watershed management project included nearly ten times as much funding for salaries as for equipment and materials.



At left, IOM employs heavy equipment and small teams of laborers to clear sites rapidly. At right, workers renovate a canal. (Photos by IOM, February 2010)

CHF - CHF also initiated a USAID-sponsored rubble removal project shortly after the earthquake. Like IOM, CHF brought in heavy machinery to do most of the rubble removal at large sites while relying on CFW teams to gather and crush smaller pieces of debris not picked up by a loader or an excavator. In smaller spaces, such as narrow streets and drainage canals, CHF used manual labor to perform the majority of the clearing using hand tools; however, heavy equipment was still required to move debris onto dump trucks for disposal. To implement this rubble removal program, CHF's budget for heavy equipment (\$3.7 million) was double the budget for CFW labor (\$1.6 million). CHF estimates that as of May 30, 2010, it had removed 110,000 cubic meters of rubble, of which CFW laborers had removed 5–7 percent.



**CHF contracted with labor teams to support heavy equipment during rubble removal.
(Photos by CHF, June 2010)**

DAI and Chemonics - Under their contracts with USAID's Office of Transition Initiatives (USAID/OTI), DAI and Chemonics had the option to develop CFW projects to remove rubble, repair roads, or rehabilitate key infrastructure. However, as of June 15, 2010, the vast majority of the two organizations' projects had focused on rubble removal. Like CHF and IOM projects, these projects required significant investment in heavy equipment to transport rubble from job sites. However, unlike CHF, DAI and Chemonics did not limit manual labor to smaller spaces where heavy equipment could not operate; rather, both implementing partners assigned CFW teams to project sites to remove the bulk of the rubble manually. According to planning documents, USAID/OTI recognized that it might be necessary for DAI and Chemonics to sacrifice operational efficiency for labor intensity. At sites visited during the audit, most laborers were moving rubble from a site to a collection point, often in small buckets or by hand, sometimes carrying one or two stones at a time. While Chemonics often used mechanized loaders to fill trucks, DAI used workers with buckets and shovels to perform this task.



**At a USAID/OTI project site, laborers move rubble and load trucks by hand.
(Photos by OIG, June 2010)**

While these CFW activities have generated tangible results, the results remain far less than needed. Following the earthquake, the U.S. Army Corps of Engineers conservatively estimated that 20 million cubic yards—approximately 15 million cubic meters—of debris required removal. With Haiti's unemployment rate still extremely high, the requirement for community stabilization persists.

Furthermore, whereas USAID/Haiti officials were generally impressed with the speed and efficiency of IOM's and CHF's mechanized operations, the officials had mixed impressions of the more labor-intensive manual operations. Officials commented that progress appeared slow and that at many sites workers did not appear very active. Site visits confirmed that the combined challenges of heat, occasional heavy rain, and intense physical labor could reduce the activity level at sites where work was done by hand. While implementing partners do not schedule formal breaks during the workday, implementing partners allow workers to take rest breaks as needed. In a July 7, 2010 *New York Times* editorial, three experts on engineering and health noted that although this inefficient process—breaking concrete and loading trucks by hand, or just moving bricks from one side of a road to the other—may put money into the hands of Haitians, it slows the rebuilding effort.

USAID/OTI Should Expand Cash-for-Work Efforts to Projects Other Than Rubble Removal

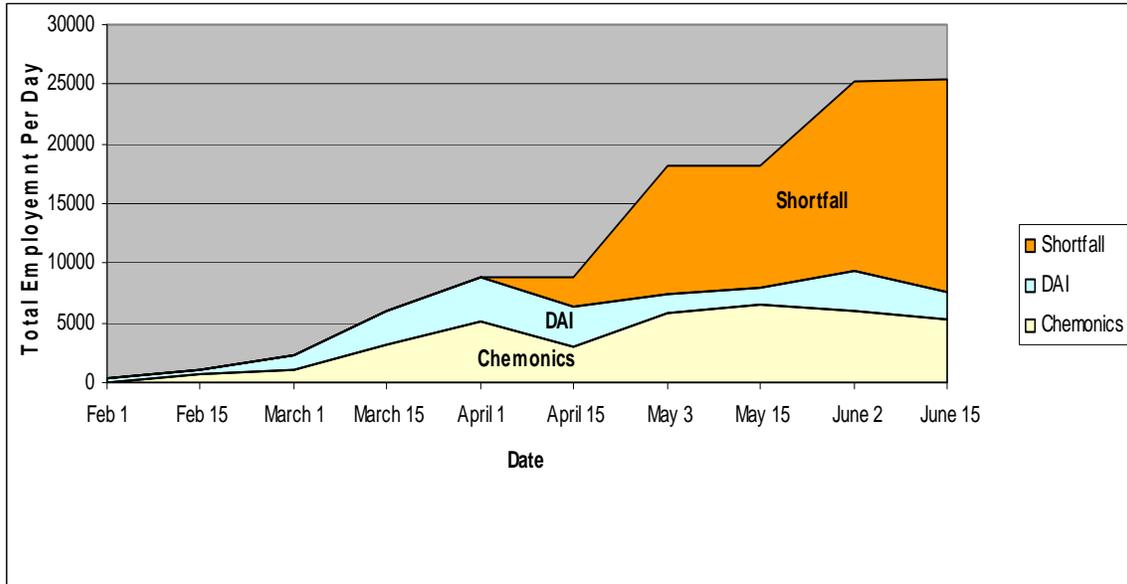
USAID/OTI established as a key strategic objective of its programming the stabilization of communities in Haiti. To reach this objective, USAID/OTI launched a large-scale jobs program in coordination with other USAID jobs programs, the Government of Haiti, and the international community to provide temporary employment removing rubble and repairing roads and other public infrastructure. The program was to inject cash into the hardest-hit communities in Port-au-Prince and surrounding areas, enabling them—particularly their youth—to work with national and local governments to make positive contributions to the cleanup and recovery of their neighborhoods.

USAID/OTI expected DAI and Chemonics to support these stabilization efforts by developing a large-scale CFW program. USAID/OTI's initial estimates focused on a program that would provide 3 million workdays at \$5 per day; such a program could serve about 124,000 beneficiaries with a total payroll of about \$15 million. Planners expected that total operational costs for each project would be allocated 70 percent to salaries and 30 percent to equipment and materials. The rapidly implemented program expected to employ about 25,000 Haitians per day by May 2010, the fifth month of operations, and maintain this level of activity for several months before winding down.

However, the CFW projects implemented by DAI and Chemonics were not reaching the expected number of beneficiaries or achieving the anticipated allocation of operational costs. As of June 15, 2010, DAI and Chemonics were providing employment to only about 8,000 beneficiaries per day (see the figure on the following page). Furthermore, the allocation of operational costs was not meeting the 70-30 split envisioned. Equipment and material costs, expected to be only 30 percent of total operational costs, instead represented about 75 percent of expenses. If the program continued to average 8,000 jobs per day through the remainder of the year, USAID/OTI's CFW program would serve only about 57 percent of the number of intended beneficiaries at a cost about 50

percent higher than the initial estimates. However, recognizing that the high equipment costs meant that employing 25,000 workers was no longer a reasonable goal for the program at existing resource levels, USAID/OTI instructed its implementing partners to slow implementation to conserve program funds. Slowing implementation reduced the chances that the program would reach even 57 percent of beneficiaries.

Actual Versus Planned Employment Levels, February – June 2010



Source: Implementing partner data, unaudited.

USAID/OTI’s CFW effort is not likely to meet its objective of providing extensive short-term employment to Haitians because rubble removal, selected as the primary CFW mechanism, is not well suited to CFW goals. As illustrated by the projects completed by IOM and CHF, effective rubble removal requires a significant investment in trucks and other heavy equipment. DAI and Chemonics face these same operational realities when removing rubble, and the high transport and operating costs limit the ability of DAI and Chemonics to hire a significant number of additional beneficiaries.

USAID/OTI made rubble removal the focus of its CFW program because of the obvious need for rubble removal to improve living conditions in Haiti and the pressure from the U.S. and Haitian Governments for fast action. These factors may have limited consideration of other CFW approaches. Furthermore, the desire for rapid implementation of the program may have caused the planners, who lacked on-the-ground or costing experience with programs of this nature, to underestimate the distribution of operational costs for rubble removal.

Having made rubble removal the focus of CFW job creation, USAID/OTI will provide fewer jobs than with other types of CFW projects, reach fewer beneficiaries than initially planned, and have less of the desired stabilizing effect than the programs intended. Although there is a tremendous need for large-scale rubble removal in Haiti, USAID’s efforts to date have demonstrated that the goal of removing rubble is not compatible with a large-scale jobs program given current resources. However, IOM and CHF have demonstrated that small-scale CFW efforts using relatively few beneficiaries can be

integrated into mechanized rubble removal efforts. Thus, we make the following recommendations.

Recommendation 1. *We recommend that USAID's Office of Transition Initiatives increase the number of potential beneficiaries by expanding cash-for-work efforts to labor-intensive community improvement projects other than rubble removal.*

Recommendation 2. *We recommend that the Office of Transition Initiatives seek partners that can provide the required trucks and heavy equipment to implement cash-for-work rubble removal efforts.*

USAID Should Develop Standard Safety Policies and Procedures

The devastation caused by the January 12, 2010, earthquake created physical, environmental, and biological hazards for laborers. The resulting debris exposes personnel working at rubble removal sites to electrical hazards, falling materials, falls from elevated work surfaces, and other physical hazards. Debris and dust from the earthquake may expose personnel to heavy metals such as mercury, lead, and cadmium, as well as to combustible products. Water collected in debris from numerous sources and food products left behind may have resulted in the growth of bacteria and mold, exposing personnel to microbiological hazards. Finally, exposure to human remains and solid waste from broken sewer lines could further expose workers to disease.

To protect against these hazards, the three implementing partners still engaged in rubble removal—CHF, DAI, Chemonics—developed safety standards to protect workers:

- According to Chemonics' implementation guidance, workers must wear hard hats during all dangerous work, except in areas authorized as "safe." Workers must wear eye protection—approved safety glasses or safety goggles—during all dangerous work, and face shields or dust masks during all work onsite to prevent inhalation of dust particles associated with concrete removal. Furthermore, workers should wear work shoes or boots with slip-resistant and puncture-resistant soles.
- According to DAI's implementation guidance, site supervisors must ensure that workers wear hard hats, gloves, protective eyewear, and rubber boots while on duty at all job sites. Any worker not wearing one of these items should be marked absent and not allowed to work on the site that day.
- CHF hired an engineering firm to give advice on safety issues at dangerous locations and sites. According to CHF officials, the engineering supervisors apply the health and safety regulations of the Construction Safety Association of Ontario, which contains guidance on the appropriate use of hard hats, eye protection, gloves, and boots to prevent or reduce the severity of injury if an accident occurs. CHF officials stated that they provided safety equipment including hard hats, gloves, boots, safety glasses, shirts, and face masks.

However, the audit found that enforcement of safety standards, procedures, and protocols varied widely at the work sites of the three implementing partners still engaged in rubble removal. While workers at all CFW sites received some personal safety equipment, visits performed during the audit confirmed that the equipment, its quality, and the frequency of its use by laborers varied by site and by implementing partner.

- At Chemonics' CFW sites, Chemonics allowed workers to participate in rubble removal even if hard hats, gloves, goggles, and boots were not available for distribution. In some cases, site supervisors did not enforce the requirement that workers wear the protective equipment while on duty. Some workers at the sites visited complained that the boots did not fit properly. Therefore, not only did some workers never receive boots, but also other workers who did receive boots could not wear them. Unlike DAI, Chemonics had not established procedures for monitoring or enforcing the use of protective equipment at job sites.
- Workers at DAI's CFW sites generally complied with the requirement to wear hard hats, gloves, protective eyewear, and rubber boots while on duty.
- During site visits to CHF work sites, the audit teams noted that CHF had provided few workers with hard hats; most used cloth caps instead. The laborers at CHF work sites complained about the quality of their gloves. According to the beneficiaries, after 3 or 4 days of use, the gloves had worn out, making them unusable. According to CHF officials, finding high-quality gloves and other equipment on the local market was difficult. Furthermore, at the CHF sites visited, CHF had not issued hard hats to the laborers, regardless of the type of labor they performed.



Some workers at this job site wear helmets, gloves, boots, and masks, but others do not. Requirements for and availability of safety equipment varied by site. (Photo by OIG, June 2010)

In addition, many workers interviewed at CFW rubble removal sites stated that they were not sure of what to do in the event of an accident. Several of those working at DAI project sites believed that they would be responsible for the cost of their medical treatment in the event of a job-related accident. The team leader at one DAI site

reported that a worker who had received a minor facial injury while on the job sought treatment at a free clinic in the neighborhood but did not report the incident to DAI.

These variations in policies and procedures occurred because USAID and its implementing partners had not developed uniform standards to ensure site safety or enforced compliance with these standards.

Without consistent use of proper, high-quality safety equipment and monitoring efforts to enforce its use, workers are at risk of serious injury. Without a standardized accident protocol, implementing partner officials and workers may not know what to do in the event of work-related injury. Thus, we make the following recommendation.

Recommendation 3. *We recommend that the Office of Transition Initiatives and the Office of Foreign Disaster Assistance adopt standardized policies and procedures regarding safety equipment use, monitoring, and response to accidents at cash-for-work sites.*

Implementing Partners Should Maximize Community Participation in Beneficiary Selection

Because CFW employment provides significant benefits for individuals in impoverished communities, transparency in the selection of workers is necessary to demonstrate fairness. According to Mercy Corps' authoritative guide to best practices for CFW activities,³ beneficiary selection needs to be as transparent as possible so that the entire community knows not only who was selected but also how the selections were made. Furthermore, because CFW benefits can be misappropriated, reasonable controls to prevent corruption, nepotism, and kickbacks should be in place. According to Transparency International's Corruption Perceptions Index, Haiti ranked 168 out of 180 in 2009 among countries perceived to be the most corrupt. Given this ranking, donors undertaking any work with the Government of Haiti should incorporate safeguards against corruption.

Not all implementing partners had sufficient controls to prevent corruption from taking place in the selection of beneficiaries hired to work on USAID CFW projects. For example, according to their implementation policies, Chemonics could allow local mayors to select the workers, while DAI could allow mayors to select team leaders, who would then select individual workers. Both approaches limit the transparency of the selection process and increase the risk of corruption or favoritism by granting decision-making authority to a few individuals. While DAI procedures include a post-selection review of workers to ensure that family members or friends of the team leader do not dominate the labor pool, Chemonics had not established this type of procedure. According to DAI and Chemonics, their program guidance is consistent with their goal of community stabilization by strengthening support for the Government of Haiti and local governments.

³ *Guide to Cash-for-Work Programming*, Mercy Corps, 2007, <www.mercycorps.org/files/file1179375619.pdf>.

In contrast, other implementing partners had stronger procedures to enhance transparency and prevent corruption. For example, CHF and some IOM projects involved local officials as well as community leaders, nonpolitical community organizations, and implementing partner staff in selecting workers. These implementing partners used various methods for developing lists of potential workers from rosters provided by both the mayor and community leaders.

Although it is appropriate and necessary to involve elected officials, the initial selection of workers should incorporate strong controls to prevent even the appearance of favoritism or corruption. One effective control is the use of multiple sources in communities to identify workers. To increase transparency and reduce the risk of corruption related to beneficiary selection, we make the following recommendation.

Recommendation 4. *We recommend that the Office of Transition Initiatives require implementing partners to develop written policies and procedures regarding the participation of community members other than elected officials in the selection of beneficiaries for cash-for-work projects.*

USAID/OTI Should Require Greater Transparency in Site Selection

The earthquake partially or completely destroyed infrastructure including many commercial, public, and private buildings in Haiti. With the need for rebuilding so great, grant agreements and project implementation guidance for CFW activities assigned highest priorities to rehabilitating infrastructure that benefits the broader community: roads and drains top the list, followed by public institutions such as hospitals, schools, and government buildings. USAID considered businesses and private homes lower priorities.

Many private homes and lots in Haiti are filled with rubble, and clearing them is extremely expensive by local standards, estimated to cost from \$20,000 to \$25,000 per site. Because of the cost of these rubble-clearing efforts, corrupt individuals might seek to use CFW efforts for personal gain.

Given the need to avoid the appearance of favoritism in the rubble removal program, project officials stated that the clearing of private houses could be justified only in rare situations, such as when a private home is at risk of collapsing and endangering neighboring homes or other projects, or to support formally approved transitional shelter construction projects.

Despite this guidance, the audit team observed workers removing rubble from the lots of private residences next to two of the four Chemonics rubble removal sites visited during the audit. Chemonics officials later confirmed that it was clearing the residential lots in conjunction with a road renovation project. USAID program officials confirmed that there are no formal procedures for selecting private homes for clearance, that private homes do not meet USAID/OTI's site selection criteria, and that the implementing partner had not notified USAID/OTI of the exceptions.

The potential for inappropriate selection of private houses exists because USAID/OTI does not require implementing partners to justify or seek formal approval for the removal

of rubble from private home sites. Although certain priorities may justify clearing private homes—to assist with resettlement efforts, for example—the selection of such sites should be transparent. To ensure transparency, we make two recommendations.

Recommendation 5. *We recommend that the Office of Transition Initiatives require implementing partners to submit detailed justification for the removal of rubble from private residential sites.*

Recommendation 6. *We recommend that, as part of its monitoring and evaluation effort, the Office of Transition Initiatives require the validation and review of any home site included in rubble removal.*

USAID/OTI Should Conduct Financial Reviews of Implementing Partners

USAID policy (Automated Directives System 596.3.1) mandates the use of internal controls to prevent fraud. The adequacy of such controls should be of particular concern in Haiti, a high-risk environment for fraud. Rapid implementation of programs following the earthquake created additional risks, as the surge in funding and the desire to implement programs quickly placed additional strain on internal control systems.

Recognizing the strain on program controls and drawing on experience in managing projects during natural disasters, USAID/Haiti's Office of Financial Management initiated financial reviews of all mission partners, including two partners implementing CFW projects: IOM and CHF. The mission initiated these reviews to determine whether these implementing partners had adequate controls to provide USAID with reasonable assurance that assets were safeguarded against fraud, waste, and abuse. At the time of the audit, the mission had determined that IOM and CHF internal controls were generally effective, although some needed improvement.

However, as of June 15, 2010, USAID/OTI had not conducted financial reviews of its implementing partners. Under the terms of the contracts with DAI and Chemonics, USAID/OTI had the right to complete a financial review within the first 6 months of the effective date of the contract to ensure that systems—management, administration, finance, procurement, and program—were in place. Although DAI and Chemonics were also expending millions of dollars rapidly on CFW programs in a high-risk environment, USAID/OTI had not yet performed these internal control reviews.

Without a thorough and complete financial assessment that takes into account the operating environment in Haiti, U.S. Government funds remain at risk. Therefore, to ensure appropriate action regarding OTI financial reviews, we make the following recommendation.

Recommendation 7. *We recommend that USAID's Office of Transition Initiatives schedule and conduct financial reviews of all implementing partners, following the protocols developed by USAID/Haiti.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our report, the Acting Directors of USAID/OTI and USAID/OFDA, along with the USAID/Haiti Mission Director, provided joint comments. They agreed with four recommendations and disagreed with three recommendations.

With regard to Recommendation 1, the USAID officials disagreed with the need to expand cash-for-work efforts to labor-intensive community improvement projects other than rubble removal, suggesting that the auditors had failed to understand the distinction between USAID/OTI's strategy and tactics with regard to community stabilization and CFW activities. However, we believe that the report clearly and accurately reflects OTI's objectives for community stabilization, as stated on the USAID/OTI Web site and on page 7 of the report: to implement a large-scale jobs program that provides temporary employment and an injection of cash to the hardest hit communities in Port-au-Prince and surrounding areas.

Because USAID/OTI initially underestimated the costs involved, the primary approach USAID/OTI selected to achieve this objective—specifically, rubble removal—will result in a program that is much smaller than anticipated. This smaller scale will in turn limit the opportunity for cash injection into poor neighborhoods and thus undermine the stated objective of the program. Therefore, while we understand and support USAID/OTI's strategy, we maintain the need for a reconsideration of tactics.

With regard to Recommendation 2, the USAID officials agreed in principle with our recommendation to seek partners that can provide trucks and heavy equipment to implement cash-for-work rubble removal efforts. The officials agreed to undertake such initiatives and to report on progress by the end of March 2011. The Office of Inspector General has reviewed USAID's proposed action and timeline and determined that a management decision has been reached for this recommendation.

The USAID officials agreed with Recommendations 3 and 4. Regarding Recommendation 3, the officials stated that they would work with implementing partners to develop uniform written safety standards and to enhance compliance with the standards. In response to Recommendation 4, USAID/OTI agreed to update policies and procedures on worker selection to address more clearly the participation of community members other than elected officials in the selection of beneficiaries for cash-for-work projects. The officials proposed completion of these actions by the end of October 2010. The Office of Inspector General has reviewed USAID's proposed action and timeline and determined that management decisions have been reached on these recommendations.

The officials disagreed with Recommendations 5 and 6, which called for detailed justification and USAID/OTI review of private lots cleared as part of OTI's CFW efforts. The officials stated that clearance of rubble from private property has never been an objective of USAID/OTI's CFW activities. The officials added that any such clearance in the past was done to remove debris that had fallen in a public space or because it

threatened to fall in a public space, thus impeding access. However, during our site visits we noted that CFW teams were clearing several private residential lots adjacent to approved road projects. We found no evidence that these lots met the stated criteria; indeed, the implementing partner noted that no criteria existed. To avoid such situations in the future, we ask USAID to reconsider Recommendations 5 and 6.

The officials agreed with Recommendation 7; USAID/OTI plans to work with USAID/Haiti to engage local audit firms to conduct the financial reviews of USAID/OTI's implementing partners. USAID/OTI also plans to conduct a management review of its implementing partners. USAID/OTI plans to complete both reviews by the end of December 2010. The Office of Inspector General has reviewed USAID's proposed action and timeline and determined that a management decision has been reached on this recommendation.

We have included the joint agency comments in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis. The purpose of the audit was to determine (1) whether USAID is effectively managing cash-for-work projects and (2) whether the projects apply sufficient internal controls to minimize the opportunity for fraud. The Regional Inspector General/San Salvador conducted the audit fieldwork at USAID/Haiti and implementing partners' offices in Port-au-Prince from May 3 to June 17, 2010.

The audit covered the period January 12, 2010, through June 17, 2010, and focused on the implementation of cash-for-work (CFW) projects by Development Alternatives Incorporated, Chemonics International Incorporated, the Cooperative Housing Foundation, and the International Organization for Migration. In planning and performing this audit, we included in the audit scope a review of management activities and controls put in place by USAID's Office of Transition Initiatives, Office of Foreign Disaster Assistance, and USAID/Haiti related to their CFW activities. Specific management controls included plans and guidance to ensure that CFW activities met their stated objectives. Specific internal controls included those over the payment of wages, selection of operating sites, selection of beneficiaries, maintenance of a safe work environment, and conduct of necessary financial reviews. Although we performed sufficient work to judge the effectiveness of controls, we did not audit the specific expenditures reported by the contractors and grantees.

Methodology

To determine whether USAID appropriately managed the CFW activities, we first met with key USAID personnel and implementing partner officials to document their roles and responsibilities in implementing CFW activities in Haiti. To gain an understanding of the program's history and status, the audit team reviewed relevant agreements, modifications, program descriptions, progress reports, and operating plans provided by USAID's Office of Transition Initiatives, Office of Foreign Disaster Assistance, and USAID/Haiti. We also reviewed applicable policies, best practices, and guidelines pertaining to USAID's CFW activities, including Mercy Corps' *Guide to Cash-for-Work Programming*. We further assessed USAID's management effectiveness by reviewing program plans, implementation schedules, work plans, progress reports, and other project documents, and compared expected results with actual results. We tested reported results on a sample basis during site visits to 15 CFW implementation sites.

To determine the effectiveness of internal controls to deter fraud and corruption, we first assessed the risk environment and reviewed applicable policies and procedures related to such controls, including USAID's Automated Directives System, Chapters 201, 203, and 596. For each implementing partner, we documented the procedures for

establishing wage rates and documenting and verifying payroll data, including the documentation of worker attendance records, and assessed each implementing partner's procedures for confirming payments to individual workers. We also conducted interviews and reviewed primary internal control mechanisms for all four implementing partners related to site selection and beneficiary selection, and confirmed the effectiveness of these controls during site visits to 15 CFW sites.

MANAGEMENT COMMENTS

DATE: September 10, 2010

FROM: USAID/DCHA/OTI Acting Director, Robert Jenkins

TO: Regional Inspector General/San Salvador, Catherine Trujillo

CC: USAID/Haiti Mission Director, Carleene Dei
USAID/DCHA/OFDA Acting Director, Mark Ward

SUBJECT: USAID response to August 11, 2010 Audit of USAID's Cash-for-Work Activities in Haiti

This memorandum transmits OTI's response to the RIG's draft audit report "Audit of USAID's Cash-for-Work Activities in Haiti", dated August 11, 2010 for your consideration. Since all seven recommendations are directed to OTI (and number 3 to OTI and OFDA), this response will constitute USAID's reply and has been coordinated with the USAID Mission and OFDA.

There follows our comments and agreement/disagreement with the seven recommendations. However, before turning to a more detailed response to each we offer the following general comment on the draft audit narrative, and to recommendation number 1. In our judgment recommendation number 1 and much of the draft audit narrative on cash for work fails to differentiate between *tactics* and *strategy*. More specifically OTI's strategic objective in Haiti was and is to support stabilization in a changing and volatile environment. The initial *means (tactics)* to this end were numbers of workers and rubble removal. The underlying assumptions in this regard were: (1) Workers (particularly young males) were less likely to resort to violence if employed; (2) Infusions of ready cash in the poorest urban neighborhoods would likely have a salutary effect; (3) Rubble removal, again in poorest neighborhoods, was highly symbolic because it offered hope of return to some form of normalcy and (labor intensive) cash for work provided a sensitive means of body removal; and (4) In the immediate post-earthquake environment, cash for work activities, which were clearly branded as a Government of Haiti initiative, helped to counter the potentially destabilizing perception that the government was unable to function and meet the urgent needs of its people. Early anecdotal evidence of the stabilizing impact of cash for work activities in Haiti has been acknowledged by USAID and also by international agencies like the UN and external observers like the International Crisis Group.

OTI recognized from the beginning that this type of cash for work would be inefficient and less cost effective. Possible alternatives such as moving CFW outside Port-au-Prince and hiring more workers or using more heavy equipment to remove rubble would not have addressed our "strategic" objective effectively. Thus these initial tactics were chosen. As expected, the situation is evolving. There remains volatility in some of Port-

au-Prince's poorest neighborhoods⁴, particularly as elections approach, but also there is growing concern about the displaced persons who have left Port-au-Prince for outlying areas. We are now in discussion with the USAID Mission, USAID Washington and the State Department about the best way forward. Likely our "community stabilization" (CFW) future efforts will contain some combination of labor intensive rubble removal in the poorest neighborhoods with other activities that combine labor with community development. In either case the key determinate will be how well these respective activities meet our stabilization objective.

We recognize that some of the conflation of strategy with tactics occurred because in the urgency to respond to the crisis, as well as the fairly rapid turnover of staff in Haiti, we failed to properly document what we were doing and why, as the situation evolved.

With respect to Recommendation Number 1: We disagree with this recommendation. As discussed above the key determinate as to what CFW (community stabilization) activities are included in this mix should not be based necessarily on how many beneficiaries are hired but how well the prospective activities meet our strategic objective. It is probable that the preponderant number of future CFW activities will focus on community improvement, but we cannot rule out the strong possibility that some rubble removal activities will continue in potentially volatile Port-au-Prince neighborhoods as elections approach.

As also noted above we believe that OTI's failure in this instance was not the choice of labor intensive rubble removal but the failure to document the reasons for activity selection and the rationale for changes as the CFW program evolved, particularly the changes in beneficiary numbers. Accordingly we offer the following recommendation as an alternative to Number 1:

Recommendation 1: We recommend USAID's Office of Transition Initiatives develop written criteria for the selection of CFW activities and document the rationale for changes in the criteria if and when they occur.

To satisfy this recommendation we will submit fully developed criteria by end October 2010 and documented changes by the end of October 2011.

Regarding recommendation Number 2: We agree in principle and when and where local partners can provide trucks and heavy equipment, we and our contractors have and will continue to avail ourselves of these opportunities. In practice during implementation, however, this has been problematic. Through our contractors we initiated partnerships with CNE (the GOH office responsible for management of much of Haiti's government owned heavy equipment) and SMCRS (responsible for waste management). Initial results were good, however, CNE's participation was curtailed by the Office of the President in order to send equipment to the provinces to prepare for the hurricane season and SMCRS's ability was limited by its waste management disposal requirements and its own limited access to equipment and gasoline. Potential partnerships with CHF and IOM have not proved fruitful. In short availability of trucks and heavy equipment in Haiti at low or no cost to the program remains limited but we will

⁴ Note that there continues to be resistance in a number of Port-au-Prince neighborhoods to the use of heavy equipment in rubble removal because it is perceived to displace labor and also because it potentially complicates the sensitive task of body removal.

continue to seek the best terms for our continued CFW activities. To clear this recommendation we propose a report on progress by end March 2011.

Regarding Recommendation Number 3: We agree with this recommendation. OTI will continue to ensure that our partners provide all workers with proper, high quality safety equipment. We will work with our partners to enhance compliance with the written safety standards, and work with the partners so that they are uniform standards. We propose to have in place a uniform safety standard by end October 2010.

USAID's Office of U.S. Foreign Disaster Assistance (OFDA) has consulted with CHF about this recommendation, and CHF agrees. CHF has a few remaining CFW teams in the field; with the remaining teams, CHF has agreed to provide hard hats to all CFW beneficiaries and better quality gloves. CHF's OFDA-funded grant ends October 20, 2010.

Regarding Recommendation Number 4: OTI will update our existing, written policies and procedures on worker selection to more clearly address the participation of community members other than elected officials in the initial selection of beneficiaries for cash-for-work projects. This will be completed by the end October 2010.

However, it should be noted that the draft audit narrative leading to this recommendation is inaccurate in several key respects. The draft audit report states: "For example, Chemonics relied almost exclusively on local mayors to select the workers, while DAI allowed mayors to select team leaders, who then selected individual workers. Both approaches grant decision-making authority to a few individuals, limiting the transparency of the selection process and increasing the risk of corruption or favoritism."

In contrast to this statement Chemonics did not allow "local mayors" to select workers. The grantee (in this instance the Municipality, the Ministry of the Environment or the Ministry of the Interior) designated a community leader to head recruitment. Chemonics then worked with this person to mobilize the community before work began through meetings with community groups and local councils. Worker selection followed this process and Chemonics maintained control over selection of site supervisors, community mobilizers and team leader selection. In the case of DAI mayors or other local authorities served as signatories on CFW activities and DAI coordinates with them on worker selection; however, the process involves many different actors from the community, including neighborhood associations, CBOs, local councils (KASEKs and ASEKs), and traditional leaders/elders. DAI Grant managers have built positive relationships in the communities in which they are currently working and have the respect of local authorities and community members alike. They are empowered to negotiate a worker selection process in the target communities that is 1) consistent with all DAI CFW policies and guidelines, and 2) reflects a positive, consultative process among local authorities and the community-at-large. In both the case of Chemonics and DAI CFW activities we believe their processes of community consultation are sufficiently transparent and inclusive so that any form of political favoritism would quickly be the subject of community protest, while acknowledging that the written policies and procedures need to be updated to reflect the these processes more accurately.

Regarding Recommendation Number 5: We disagree with this recommendation. Clearance of rubble from private property has never been an objective of the OTI CFW activities. Any rubble that might have been removed in the past was done so to remove

debris that had fallen in a public space or because it threatened to fall in public space, thus impeding access. In addition, removal of rubble from private property MAY become an important part of a USAID reconstruction housing strategy now under review. OTI may or may not be a part of this strategy but in the event it is involved, the criteria and justification process for removal will be developed by the USAID Mission.

Regarding Recommendation Number 6: We disagree with this recommendation. As noted above private property rubble removal is not part of OTI CFW activities and in the event that OTI does become involved with rubble removal from private property in the future; it will be part of a housing reconstruction strategy the policy for which will be developed by the USAID Mission.

Regarding Recommendation Number 7: We agree with this recommendation. Working with the USAID Mission we plan to engage local audit firms to conduct the financial reviews. We also plan to conduct a management review, both to be completed by end December 2010.

The draft audit narrative gives the impression that OTI has conducted its CFW activities for over six months without proper management and financial controls in place. This is far from the case. Through close communication and coordination with our Contractors, OTI has direct insight into Contractor policies and procedures designed to ensure compliance with USG and USAID rules and regulations. In addition, USAID/OTI employs more formal checks on Contractor compliance before and during program implementation.

Prior to the award of the first task order, all SWIFT Contractors were required to submit an Activity Manual for COTR concurrence and for CO approval. These manuals are based on the FAR, ADS, AIDAR, as well as on the contractor's corporate policies and procedures. The process for approving these manuals involved several months of discussions between OTI, OAA, and the contractors to ensure that all proposed practices were in compliance with USAID and USG rules and regulations.

In addition, each SWIFT task order (including Haiti) requires that the Contractor develop and submit for COTR approval a country specific Activity Management Guide based on their CO-approved Activities Manual for use as a reference by local staff. These adapted Activity Management Guides include procedures for the selection of instrument, design of the activity, database entry, monitoring and evaluating the outputs and outcomes; and closing out the grant in compliance with US law and USAID regulations.

Further, the OTI/Haiti task orders require Contractors to prepare a Field Procurement Guide covering procurement and delivery of commodities required for in-kind grant activities. The guides include a description of systems for timely and efficient in-kind procurement and delivery, consistent with program requirements.

It should also be noted that OTI has worked closely with its SWIFT partners for years (in the case of Chemonics and DAI for well over a decade) and have a good understanding of its administrative and financial procedures and are comfortable with its safeguards.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave., NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/org