



*Office of Inspector General*

April 20, 2012

**MEMORANDUM**

**TO:** USAID/Caucasus Mission Director, Stephen Haykin

**FROM:** Office of Audit, Inspections and Evaluations Division Director, Joy Kadnar /s/

**SUBJECT:** Review of Selected USAID/Caucasus's School Rehabilitation Activities  
(Report No. 2-114-12-005-S)

This memorandum transmits our final report on the subject review. In finalizing the report, we carefully considered your comments on the draft, and we have included them (without attachments) in Appendix II.

Although not an audit, this report contains three recommendations to assist USAID/Caucasus in improving the impact of its school rehabilitation program. A management decision has been reached on Recommendation 1, and final action has been taken on Recommendations 2 and 3. The Audit Performance and Compliance Division will make a determination of final action on Recommendation 1 on completion of the planned corrective actions.

I appreciate the cooperation and courtesy extended to my staff during the review.

# SUMMARY

The conflict between Georgia and Russia in August 2008 damaged or destroyed elements of critical infrastructure and displaced entire communities. The U.S. Government responded by pledging \$1 billion in assistance to Georgia through USAID. This assistance was designed to help internally displaced persons, rebuild infrastructure, revitalize the economy, and restore investor confidence. Of the assistance, \$200 million was allocated for construction and rehabilitation activities, including the following two USAID/Caucasus programs (Table 1), which focused on the rehabilitation of schools and were both implemented by CHF International.

**Table 1. Rehabilitation Activities Reviewed**

Program	Start Date	End Date	Cost (\$)
BAVSHVI*	7/1/2010	3/31/2012	12,900,000
Conflict Affected Schools Rehabilitation Component of the Georgia Employment and Infrastructure Initiative (GEII)	9/30/2004	6/30/2010	2,900,000

\* The acronym BAVSHVI is the Georgian word for child.

A goal of the BAVSHVI program was to provide for improved learning conditions in 50 Georgian schools. Similarly, the Conflict Affected Schools Rehabilitation Component of the GEII sought to improve the physical learning environment of 16 schools in a region affected by the 2008 conflict. The primary and common element of both programs was to ensure that minimum standards for learning environments in schools were achieved.

The Office of Inspector General (OIG) conducted this review to determine whether USAID/Caucasus’s school rehabilitation activities were achieving their goals of providing for improved physical conditions and learning environments.

The review found that the programs were achieving their goals of improving the schools’ physical conditions and learning environments. Schools refurbished under the BAVSHVI and GEII programs meet the Georgian Ministry of Education and Science’s minimum standards for partial renovation: the schools have roofs, windows and doors, heating systems, and toilets. From all 66 schools covered by the programs, the review team selected a sample of 41 schools for inspection. The review team confirmed the existence of these minimum standards at 40 schools—almost all of the inspected schools.

While the programs achieved these goals, the review noted the following weaknesses in implementation:

- The risk of asbestos exposure remains at eight refurbished schools (page 3). The roofs of eight gymnasiums that adjoin schools rehabilitated by the program contain unmitigated asbestos. Students continue to use at least four of these gyms. USAID decided not to rehabilitate them because of budget limitations and competing priorities.

- The implementer submitted improper claims for cost-sharing contributions (page 4). To meet its \$2.5 million cost-sharing obligation, it claimed amounts spent on routine school operations and maintenance, furnishings, and community meetings—expenditures that did not contribute to program goals or were not included in the approved budget.

To address these weaknesses, OIG recommends that USAID/Caucasus:

1. Reconsider the decision not to mitigate asbestos in attached school gymnasiums (page 4).
2. Communicate cost-sharing requirements to CHF International (page 5).
3. Notify CHF International of the implications of failing to meet its \$2.5 million cost-sharing obligation, and solicit reassurance that the obligation will be met (page 5).

Appendix I contains a discussion of the survey's scope and methodology. Management comments are presented in their entirety (without attachments) in Appendix II, and our evaluation of the comments is on page 6. Detailed results follow.

# REVIEW RESULTS

## Risk of Asbestos Exposure Remains at Eight Refurbished Schools

According to the U.S. Environmental Protection Agency and the Centers for Disease Control and Prevention, exposure to asbestos increases one’s risk of lung disease, such as asbestosis, lung cancer, and mesothelioma. The risk of asbestos exposure remains as long as unencapsulated or unabated asbestos is present. Accordingly, the benefits of mitigating asbestos in a portion of a school building are questionable if asbestos is present in an attached building. Indeed, the benefits of the school refurbishment program are reduced when unsafe conditions remain in associated school buildings.

The 8 schools listed in Table 2, among the 50 to be rehabilitated under the BAVSHVI program, had attached gymnasiums with roofs containing asbestos.

**Table 2. Schools With Gymnasiums Whose Roofs Contain Asbestos**

School	District	Region
1. Jokholo	Akhmeta	Kakheti (E. Georgia)
2. Dumasturi	Akhmeta	Kakheti (E. Georgia)
3. Tsitskanaantseri	Kvareli	Kakheti (E. Georgia)
4. Kuchatani	Kvareli	Kakheti (E. Georgia)
5. Boslebi	Dmanisi	Kvemo Kartli (E. Georgia)
6. Tivi	Kvareli	Kakheti (W. Georgia)
7. Apkhazeti #21	Poti	Samegrelo-Zemo Svaneti (W. Georgia)
8. Khabume	Chkhorotsku	Samegrelo-Zemo Svaneti (W. Georgia)

CHF International, the implementer, replaced or planned to replace the asbestos-tiled roof at each school with corrugated sheet metal plates, but these renovations did not extend to the replacement of the roofs of gymnasiums attached to these schools (one of which is shown on the next page). At least four of the eight gymnasiums continue to be used.

Not mitigating asbestos present in these gymnasiums at the eight schools refurbished under the program is contrary to the Agency’s rigorous standard practice for addressing the risk of asbestos exposure in the region. According to the Bureau for Europe and Eurasia’s acting environmental officer, the standard practice in the region has been that when part of a school is renovated, all asbestos onsite should be either encapsulated in place or abated.



**The roof of the Kuchatani school's attached gymnasium is made of asbestos-containing materials. Renovations were made to the connecting segment (shown at left), but not to the gym's roof. (Photo by OIG, July 27, 2011)**

Although it is standard practice to mitigate all asbestos onsite when renovating schools, a mission official explained that the program was designed to focus on areas where students spend most of their time to “maximize the impact and benefits with a limited budget.” The mission official recognized that this would exclude rehabilitation work on the gymnasiums.

To protect beneficiary safety and maximize program impact, we make the following recommendation.

***Recommendation 1.** We recommend that USAID/Caucasus, in consultation with the Bureau for Europe and Eurasia's environmental officer, reconsider its decision not to mitigate asbestos in the eight school sites identified above and document that decision.*

## **Implementer Submitted Improper Claims for Cost-Sharing Contributions**

The BAVSHVI cooperative agreement required CHF International to contribute more than \$2.5 million in cost-sharing contributions. Cost sharing is governed by the Code of Federal Regulations, 22 CFR 226, “Administration of Assistance Awards to U.S. Non-Governmental Organizations.” 22 CFR 226.23(a) establishes the criteria by which contributions may be deemed acceptable. It notes that cost-sharing contributions must be “necessary and reasonable for proper and efficient accomplishment of the project or program objectives” and be “provided for in the approved budget.”

A large percentage of cost-sharing contributions that CHF International claimed did not meet both criteria. As of June 30, 2011, CHF International reported \$1,492,293 in total cost-sharing contributions. Of this amount, \$1,276,045, nearly 86 percent of the total reported, was listed under “community material contribution” and “community unskilled labor.” These categories included costs related to the school’s routine operations, maintenance, and furnishings, not the program’s objectives. Specific items included:

- Purchasing curtain material and sewing
- Arranging school yards with plants and flowers
- Cleaning the school building and territory
- Mowing the school yard
- Shoveling roofs and sidewalks
- Collecting and disposing of garbage
- Preparing the school for the studying process
- Cooking meals for workers

Additionally, CHF International claimed \$60,777 for “workshop, conference, [and] training attendance,” which related to various community meetings. The cost share budget approved by USAID in the BAVSHVI proposal from June 20, 2010, did not include a cost-sharing category for community meetings.

Although the BAVSHVI agreement cited requirements for cost-sharing contributions, the mission did not provide clear, sufficient guidance to CHF International about acceptable claims for cost-sharing contributions. The mission attempted through an e-mail to correct CHF International’s improper contribution claims, noting that “specious attribution” of operating costs would not be “favorably considered”; however, the mission’s guidance was insufficient to correct and preempt CHF International’s improper cost-sharing claims.

Cost sharing is meant to encourage donations from the private sector and the local community to support USAID’s investment and make the program a success. Without effective oversight of cost sharing, the BAVSHVI program may not receive the prescribed amount of funds or in-kind donations intended to improve the educational experience of Georgian students.

To improve the cost-sharing impact, this review makes the following recommendations.

***Recommendation 2.*** *We recommend that USAID/Caucasus communicate cost-sharing criteria and acceptable examples of cost-sharing to the BAVSHVI implementing partner, CHF International.*

***Recommendation 3.*** *We recommend that USAID/Caucasus write CHF International to highlight the implications of failing to meet its \$2.5 million cost-sharing obligation, and solicit written reassurance that the obligation will be met.*

# EVALUATION OF MANAGEMENT COMMENTS

After evaluating management's response to the draft report and subsequent correspondence with USAID/Caucasus, we determined that a management decision has been reached on Recommendation 1 and final actions have been taken on Recommendations 2 and 3. Recommendations 2 and 3 are closed on issuance of this report. Our detailed evaluation is below.

Following our receipt of management's response to the draft report, USAID/Caucasus modified the BAVSHVI agreement to (1) extend the completion date from February 29, 2012, to March 31, 2012, and (2) reduce the amount of CHF International's cost share from \$2.5 million to \$1.9 million. Accordingly, the award budget was revised to reflect the cost-sharing change. USAID/Caucasus noted that the extension of the program and reduction in the cost share were based on a major programmatic change initiated by the Government of Georgia. We requested and reviewed the agreement modification and additional evidence to support determinations of final action on Recommendations 2 and 3.

**Recommendation 1.** USAID/Caucasus agreed to consult with the Bureau for Europe and Eurasia's environmental officer to reconsider the decision not to mitigate asbestos in the eight gymnasiums and to document that decision. USAID/Caucasus plans to consult with the regional bureau's environmental officer and, pending the availability of funding, will reconsider the decision. Following consultation and reconsideration, USAID/Caucasus will document its decision. The target date for completion of these actions is May 31, 2012. A management decision has been reached on this recommendation.

**Recommendation 2.** USAID/Caucasus agreed to clarify cost-sharing criteria and give examples of acceptable cost-sharing contributions to its BAVSHVI implementing partner, CHF International. USAID/Caucasus described and provided copies of communications with CHF International from June 2010 to March 2012, in which USAID/Caucasus cited cost-sharing criteria, described acceptable cost-sharing contributions in the context of 22 CFR 226, and provided examples of unacceptable cost-sharing contributions in CHF International's cost proposal and cost-sharing claims. Furthermore, USAID/Caucasus intends to monitor closely CHF International's compliance on the \$1.9 million cost-sharing requirement and continues to follow up with the implementer to obtain sufficient documentation for its cost-sharing claims. Final action has been taken on this recommendation.

**Recommendation 3.** USAID/Caucasus agreed to write to CHF International to highlight the implications of failing to meet its \$2.5 million cost-sharing obligation and to solicit reassurance that the obligation will be met. USAID/Caucasus stated that it is engaged in ongoing discussions with CHF International about cost sharing, including the implications of failing to meet the cost-sharing obligation. In subsequent correspondence with OIG, USAID/Caucasus clarified that it has communicated its expectations in person, on the phone, and by e-mail to the chief of party of CHF International to deliver on its cost-sharing obligation. In the context of questioning the amounts claimed for in-kind contributions, USAID/Caucasus informed the chief of party that it would expect CHF International to make up for any shortfalls in cost sharing with cash. USAID/Caucasus acknowledged that it could require CHF International to meet its cost

share with cash or pursue other remedies consistent with 22 CFR 226.62, as appropriate. On January 27, 2012, USAID/Caucasus obtained a written commitment from CHF International that it would meet its reduced cost-sharing obligation of \$1.9 million. Final action has been taken on this recommendation.

Management comments are presented in their entirety (without attachments) in Appendix II.



# SCOPE AND METHODOLOGY

## Scope

OIG's Inspections and Evaluations Division conducted this review of USAID/Caucasus's school rehabilitation activities. This review was conducted in accordance with the July 2007 revision of Government Auditing Standards—specifically, with the general standards in Chapter 3, the documentation standards in Sections 7.72–7.79, the evidence standard in Section 7.55, and the standards for developing elements of a finding in Sections 7.72–7.76. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this review was to determine whether USAID/Caucasus's school rehabilitation activities were achieving their goals of providing for improved physical conditions and learning environments. The review focused on the 50 schools subject to rehabilitation under the BAVSHVI program and the 16 schools under GEII. We conducted inspections at 41 school rehabilitation sites in the Republic of Georgia between July 25 and August 4, 2011. We did not review any group homes. We selected rehabilitation sites that would provide geographic and subcontractor diversity and fit within time and mobility constraints. We conducted other testing later in the Washington, D.C., metropolitan region.

## Methodology

To answer the objective, we determined whether the programs were meeting their goals of providing improved physical conditions and improved learning environments by bringing the 66 schools up to the minimum standards of the Georgian Ministry of Education and Science for partial renovation. The standards require that schools be equipped with a roof, windows and doors, heating, and toilets. Through physical observation and inquiry at a statistically significant number of the programs' school rehabilitations (41 out of 66), the review team confirmed the existence of these components at 40 schools. The review team considered the programs successful if 90 percent of the schools inspected were found to have met the Ministry's partial renovation standards; nearly all inspected schools (40 out of 41 or nearly 98 percent) met the "partial renovation" standards. The review team also communicated with employees from USAID/Caucasus, implementing partners, and the Bureau for Europe and Eurasia, as well as with program beneficiaries. Additionally, the team obtained and analyzed program documents such as agreements and reports.

# MANAGEMENT COMMENTS



March 15, 2012

## MEMORANDUM

**TO:** Joy Kadnar, Director  
Inspection and Evaluation Division, Office of Audit  
USAID Office of Inspector General (IG)

**FROM:** Stephen M. Haykin, Mission Director /s/  
USAID/Caucasus

**SUBJECT:** Mission Comments on Review of Selected USAID/Caucasus's School  
Rehabilitation Activities (Report No. 2-000-12-00X-S)

USAID/Caucasus has reviewed the draft Review of Selected USAID/Caucasus' School Rehabilitation Activities (Report No. 2-000-12-00X-S) and related recommendations. IG recommendations and related Mission comments are outlined below.

**Recommendation 1:** We recommend that USAID/Caucasus, in consultation with the Bureau for Europe and Eurasia's Environmental Officer, reconsider its decision not to mitigate asbestos in the eight schools sites (identified above) and document that decision.

**Mission Comments:** USAID/Caucasus will comply with this recommendation.

**Actions Taken/Planned:** USAID/Caucasus will consult with the USAID Bureau for Europe and Eurasia's Environmental Officer and, subject to the availability of funding, will reconsider its decision not to refurbish gymnasiums, including mitigation of asbestos in the eight school gymnasiums identified in the report. USAID/Caucasus will document this decision.

**Target Completion Date:** May 31, 2012

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**Recommendation 2:** We recommend that USAID/Caucasus communicate cost sharing criteria and examples to the BAVSHVI implementing partner, CHF International, to clarify what acceptable cost sharing contributions are.

**Mission Comments:** USAID/Caucasus has engaged in a continuing dialogue with CHF on the subject of cost sharing, beginning during our pre-award analysis of its cost-sharing proposal in June 2010. Most recently, on March 9, 2012, we asked CHF to respond to findings of our review of its documentation purporting to demonstrate meeting the cost-sharing requirement. We are awaiting CHF's response [see attached emails].

**Actions Taken/Planned:** USAID/Caucasus is in the process of extending the Agreement through March 31, 2012, and reducing CHF's cost sharing requirement, based on a major change in the program initiated by the Government of Georgia. This change precluded CHF delivering the full \$2.5 million cost share in the Agreement. USAID/Caucasus intends to closely monitor CHF's compliance on the remaining \$1.9 million cost sharing requirement.

**Target Completion Date:** The Mission deems that a management decision has been reached and that appropriate actions are being taken to fully address Recommendation 2. The Mission therefore requests closure of this recommendation.

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**Recommendation 3:** We recommend that USAID/Caucasus write CHF International to highlight the implications of the partner failing to meet its \$2.5 million cost sharing obligation and to solicit reassurance that the obligation will be met.

**Mission Comments:** As noted in our comments in response to Recommendation 2, we are engaged in an ongoing dialogue on the subject of cost-sharing, which has included the implications of not meeting the cost sharing obligation. On January 27, 2012, CHF reconfirmed its intention to meet the cost share requirement in response to our letter informing CHF that its cost share obligation would be reduced to \$1.9 million, not \$1.27 million as they had requested [see attached email].

**Actions Taken/Planned:** USAID/Caucasus has obtained a written commitment from CHF to meet its cost share obligation. Should we determine that CHF has not met its \$1.9 million cost sharing requirement by the completion of the BAVSHVI program, USAID/Caucasus will take appropriate action consistent with 22CFR226.23 and ADS303.

**Target Completion Date:** The Mission deems that a management decision has been reached and that appropriate actions are being taken to fully address Recommendation 3. The Mission therefore requests closure of this recommendation.

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