# OFFICE OF INSPECTOR GENERAL

# AUDIT OF USAID/SOUTH SUDAN'S PROGRAMS IMPLEMENTED BY MERCY CORPS

AUDIT REPORT NO. 4-668-12-009-P
May 25, 2012

PRETORIA, SOUTH AFRICA

*Office of Inspector General*

May 25, 2012

**MEMORANDUM**

**TO:** USAID/South Sudan Mission Director, Kevin Mullally

**FROM:** Regional Inspector General/Pretoria, Christine M. Byrne /s/

**SUBJECT:** Audit of USAID/South Sudan's Programs Implemented by Mercy Corps (Report Number 4-668-12-009-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them in their entirety in Appendix II.

The report includes 14 recommendations to strengthen USAID/South Sudan's programs implemented by Mercy Corps and future mission programs. With the information you provided in your response to the draft report and in subsequent communications, we determined that management decisions have been reached on Recommendations 1, 2, 5, 6, 7, 11, 12, 13, and 14. Recommendations 3, 4, 8, and 9 remain open pending the agreement officer's determination of the allowability of $1,576,419 in questioned costs ($1,374,815 ineligible and $201,604 unsupported) and a target date for the collection of any disallowed amounts. Recommendation 10 remains open pending the agreement officer's determination of any compensation required in connection with Mercy Corps' retention of certain office compounds built with USAID funds.

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

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# CONTENTS



**Abbreviations**

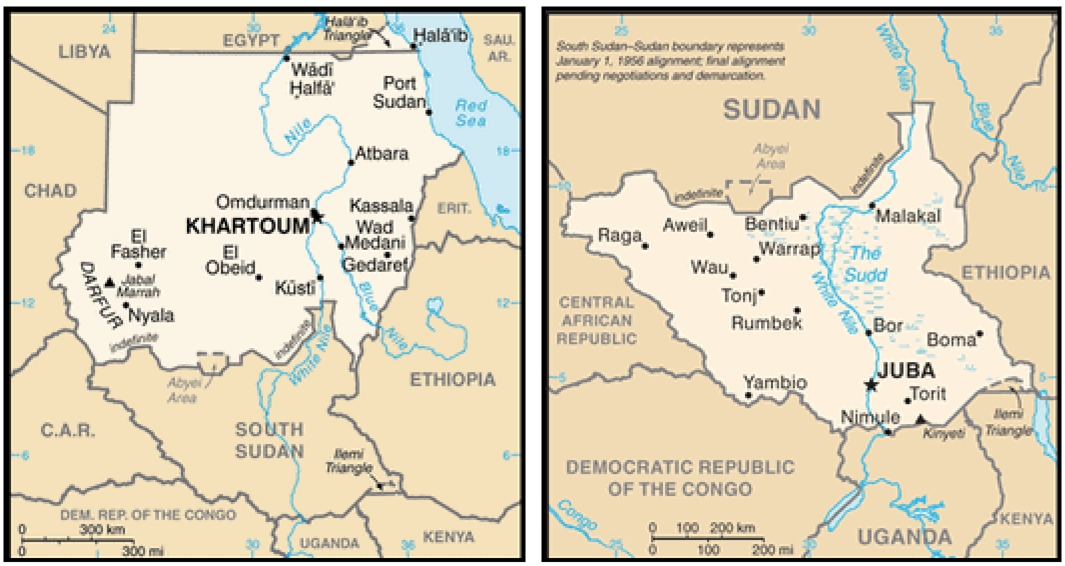
| | |
|---|---|
| ADS | Automated Directives System |
| AOR | agreement officer’s representative |
| CFR | Code of Federal Regulations |
| CPA | Comprehensive Peace Agreement |
| CSO | civil society organization |
| FY | fiscal year |
| LINCS | Localizing Institutional Capacity in Sudan |
| MC-BRIDGE | Mercy Corps-Building Responsibility for Delivery of Government Services |
| MC Scotland | Mercy Corps Scotland |
| RIG | Regional Inspector General |
| TBA | traditional birth attendant |

# SUMMARY OF RESULTS

The Republic of South Sudan became the world's newest nation on July 9, 2011, after an overwhelming vote for peaceful secession from Sudan in the January 2011 referendum. In the south, the exhilaration of independence was matched by daunting challenges. Government institutions are nascent, infrastructure is outdated or nonexistent, and, with a 27 percent literacy rate, human capital is insufficient to meet the country's needs.

Meanwhile, in the north, there was uncertainty over Sudan's economic future since most of its oil—the lifeblood of the economy—is in the south. Stabilizing Sudan has been a major U.S. Government priority in Africa for years, given the destabilizing consequences of the civil war between the north and south and the Darfur conflict that began in 2003.[1]

**Maps of Sudan (left) and South Sudan (right)**




Source: CIA World Factbook.

Since 2005, USAID's strategy for assisting Sudan has been based on implementing the Comprehensive Peace Agreement (CPA) that ended decades of civil war. The CPA established peace between north and south through wealth- and power-sharing agreements that included a subnational autonomous Government of South Sudan. USAID/Sudan, along with other donors, worked to transform that entity from a fledgling institution into a functioning government. South Sudan's independence signaled the end of the CPA and the beginning of a new USAID strategy that focuses on maintaining stability in Sudan and South Sudan, supporting the development of government capacity and economic growth, and ensuring the provision and further development of basic services.

[1] Angela Stephens, "Two Sudans: The Separation of Africa's Largest Country and the Road Ahead," *FrontLines*, September/October 2011.

USAID/Sudan[2] requested this audit because of ongoing concerns about the performance of two key programs implemented by Mercy Corps. These programs were particularly important because of their roles in implementing the CPA, their engagement with civil society and with local and national governments, and their presence in the Three Areas.[3] The programs are described below.

**Localizing Institutional Capacity in Sudan (LINCS).** USAID/Sudan entered into a cooperative agreement with Mercy Corps for the LINCS program in September 2005. This program was developed for six regions of southern Sudan and directly addressed USAID's objective: to increase the institutional capacity of civil society organizations (CSOs) that supported marginalized groups such as women, youth, orphans, internally displaced people, returnees, and people with disabilities. Following a modification made in 2008, the program was revised to include improvement and certification of 114 CSOs, construction of 13 civil society resource centers (resource centers) to provide infrastructure and assistance for CSOs, and construction of a network of community radio stations to provide access to government and civic information.

The original agreement called for spending $8.4 million from September 2005 through August 2008. In October 2008, after modifying the agreement six times to extend the end date and change funding totals, USAID/Sudan and Mercy Corps signed Modification 7, which significantly changed the scope of work. On September 30, 2011, after subsequent modifications, LINCS obligations and expenditures totaled $39 million and $37.5 million, respectively. These modifications extended the program's end date to December 2011. However, in fiscal year (FY) 2011, because of numerous performance concerns USAID decided to close out program activities by June 30, 2011.

**Building Responsibility for Delivery of Government Services (MC-BRIDGE).** USAID/Sudan entered into a cooperative agreement with Mercy Corps for MC-BRIDGE on January 16, 2009.[4] The cooperative agreement had an estimated completion date of November 19, 2011, and an estimated value of $53.5 million. However, on February 7, 2011, USAID/Sudan notified Mercy Corps that it would not fund the remainder of the award because of its substantial doubts about Mercy Corps' ability to complete activities proposed in the 2011 draft work plan; instead, the mission would provide up to $10 million to close out the program. As of September 30, 2011, MC-BRIDGE obligations and expenditures totaled $29.7 million and $28.1 million, respectively.

As stated in the cooperative agreement, the goal of MC-BRIDGE was to support the CPA through "delivering visible peace dividends to communities and building the capacity of local

[2] Upon South Sudan's independence from the north, the USAID office in Juba was designated USAID/South Sudan, while the USAID mission in Khartoum remained USAID/Sudan. This audit was requested before then. Because the Government of Sudan would not provide travel visas to the audit team, fieldwork was limited to South Sudan. Consequently, audit recommendations are restricted to USAID/South Sudan.

[3] The Three Areas refer to Blue Nile and Southern Kordofan States and the disputed Abyei area. These are in Sudan along the border with South Sudan. Providing assistance to the Three Areas has been a long-term priority for the U.S. Government, since any instability there could hurt attempts to establish peace between Sudan and South Sudan.

[4] Mercy Corps implemented USAID/Sudan's BRIDGE program in the Three Areas in Sudan and Upper Nile State in South Sudan, while Winrock International implemented a concurrent BRIDGE program in other locations in South Sudan. Although they shared the same name, the programs were different in scope and geographic area. The prefix "MC" in this report distinguishes the audited program as Mercy Corps'; Winrock's BRIDGE was not included.

government at all levels to engage constituencies and deliver services." MC-BRIDGE outlined three objectives toward this goal: (1) enhance the capacity of state and county/local governments to plan, manage, and provide services to citizens, (2) improve relationships between local government and its constituents to ensure more democratic, transparent local governance, and (3) deliver concrete improvements in livelihoods, education, health, water, and sanitation that reinforce support for peace and contribute to government capacity for transparent, participatory planning and delivery of services. In FYs 2010 and 2011, Mercy Corps planned nearly three times as many activities under the third objective as it did for the first two objectives combined.

Seven consortium partners helped implement MC-BRIDGE under subgrant agreements with Mercy Corps, each selected for its established presence in the Three Areas and Upper Nile State and its expertise in key service delivery sectors; Appendix III has details on the partners. In addition, Mercy Corps contracted with Tetra Tech ARD in the second year to provide technical support on governance. As of June 7, 2009, Mercy Corps Scotland (MC Scotland)—through a subcontract with Mercy Corps—assumed responsibility for all MC-BRIDGE projects in Sudan after the government expelled Mercy Corps in March 2009.[5] For continuity, the audit will refer generally to Mercy Corps and MC Scotland jointly as Mercy Corps, unless otherwise specified.

The Regional Inspector General in Pretoria (RIG/Pretoria) conducted this audit to determine whether USAID/Sudan's LINCS and MC-BRIDGE programs were achieving their main goals. The audit determined that they were not. The following problems contributed to substandard performance.

- LINCS did not complete key deliverables like radio stations, resource centers, and annual state conferences on time, despite expending approximately $37.5 million over the duration of the program (page 6).

- MC-BRIDGE did not reach performance targets or implement planned activities, despite expending approximately $28.1 million over the duration of the program. Insecurity and other unavoidable circumstances hindered progress, but mismanagement by USAID and Mercy Corps also was a factor (page 8).

- Mercy Corps implemented some MC-BRIDGE activities without first obtaining USAID's approval as required; these activities included procurement and use of restricted goods and construction of projects costing over $100,000. These instances led to questioned costs of $1,237,404. Further, MC-BRIDGE's environmental documentation and water tests were not completed or approved in a timely manner, putting USAID at risk of unintentionally harming the environment and beneficiaries (page 11).

- Mercy Corps charged $339,015 in questionable costs to USAID. These costs included the salary of a former Mercy Corps country director, which Mercy Corps had disproportionately allocated to USAID programs, and indirect costs arising from inconsistent treatment of capital expenditures. In addition, Mercy Corps charged the cost of several office

[5] In March 2009, the Government of Sudan expelled Mercy Corps and twelve other nongovernmental organizations after the International Criminal Court issued an arrest warrant for President Omar al-Bashir for war crimes and crimes against humanity in Darfur. The expulsion primarily affected Mercy Corps' operations in what was then northern Sudan, including the Three Areas.

compounds that it intended to use in other programs, including non-U.S. Government ones, after the conclusion of LINCS (page 14).

- LINCS resource centers may not be sustainable. They functioned minimally and lacked financial resources, staff, and equipment to operate as intended without more funds from donors (page 17).

- A key Mercy Corps official was not subject to USAID approval and made program decisions that should have been made by USAID-approved key personnel. These decisions contributed to LINCS' underperformance (page 18).

- Branding for LINCS and MC-BRIDGE was ineffective and failed to credit the U.S. Government for its foreign assistance efforts. Mercy Corps had not branded some program deliverables, such as physical structures and commodities, with the USAID identity. In other cases, the implemented branding and marking plan did not communicate USAID's involvement effectively (page 19).

- MC-BRIDGE performance data were not useful. Program results frequently were unsupported and reported inconsistently, and they therefore were not reliable for making decisions (page 21).

In addition to the above issues, the audit found that USAID/South Sudan had not disseminated information about its decision not to fund traditional birth attendant (TBA) training. As a result, MC-BRIDGE consortium partners spent USAID funds on unsanctioned activities (page 23).

To strengthen future programs, the audit recommends that USAID/South Sudan:

1. In coordination with USAID/Sudan, develop and implement a plan to improve management of projects, programs, and activities that span both Sudan and South Sudan, with particular attention to any that involve multiple technical offices (page 11).

2. Develop and implement procedures to ensure that recipients' annual work plans are submitted, reviewed, and approved in a timely manner (page 11).

3. Determine the allowability of $1,125,000 in ineligible questioned costs (spent on substandard construction of the Mabaan County vocational training center and initiated without getting approval from the agreement officer first as required), and recover from Mercy Corps any amounts determined to be unallowable (page 14).

4. Determine the allowability of $112,404 in ineligible questioned costs (spent on restricted goods and without getting USAID's approval first as required), and recover from Mercy Corps any amounts determined to be unallowable (page 14).

5. Develop and implement a plan to ensure that all water points constructed or refurbished for human consumption under MC-BRIDGE be tested as required by Agency regulations, and resolve and document any issues identified (page 14).

6. Develop and implement procedures to require that water points constructed or refurbished in South Sudan with USAID funds be tested as required by Agency regulations (page 14).

7. Develop and implement procedures for timely review and approval of recipients' submissions to USAID for construction projects, waivers for procurement of restricted goods, and environmental assessments and testing (page 14).

8. Determine the allowability of $201,604 in unsupported questioned costs (pertaining to the employment costs of a former Mercy Corps country director), and recover from Mercy Corps any amounts determined to be unallowable (page 15).

9. Determine the allowability of $137,411 in ineligible questioned costs (arising from inconsistent treatment of capital expenditures in its indirect cost rate calculations), and recover from Mercy Corps any amounts determined to be unallowable (page 16).

10. Require Mercy Corps to compensate USAID for any office compounds funded by the LINCS program that Mercy Corps intends to retain title to, in accordance with 22 Code of Federal Regulations (CFR), Section 226.32, and document the results of its determination (page 16).

11. Develop and implement a plan for future agreements to require USAID approval of employees who perform duties described in key personnel position descriptions (page 19).

12. Designate in writing a branding and marking subject matter expert, and develop and implement a plan to educate implementing partners on devising effective branding strategies (page 21).

13. Develop and implement procedures for monitoring the implementation and effectiveness of approved branding strategies and marking plans during site visits, including alternative monitoring procedures if security or logistical constraints preclude actual visits (page 21).

14. Develop a mission order regarding its policy on traditional birth attendant training and disseminate the policy to staff and implementing partners, as appropriate (page 23).

Detailed findings appear in the following section. Our evaluation of management comments is included on page 24. Appendix I describes the audit's scope and methodology, and management comments are included in Appendix II.

# AUDIT FINDINGS

## Civil Society Program Did Not Complete Key Deliverables on Time

In October 2008, Mercy Corps and USAID/Sudan signed Modification 7 of the LINCS agreement, which revised the program description and established new deliverables. These deliverables, as summarized in Table 1, were intended to strengthen USAID's efforts in key geographic areas and to support civic education and engagement. Resource centers were intended to provide infrastructure and resources in South Sudan and the Three Areas, while the community advisory boards (advisory boards) were intended to maintain these facilities and continue implementing their activities.

**Table 1. LINCS Deliverables and Results (Audited)**

| Program Deliverable | Results |
|---|---|
| 114 CSOs with improved organizational capacity by the end of FY 2009 | 114 CSOs had signed partnership agreements by the end of FY 2010. |
| 14 functioning resource centers, including the Juba civic engagement center,* by the end of FY 2009; 7 would be in the Three Areas | When the program ended in June 2011, only 10 of 14 resource centers were operational, including the one in Juba. Although 12 had been completed, 2 (Abyei and Mankien) were no longer operational because of post referendum insecurity. Further, of the seven resource centers intended for the Three Areas, only four were operational. |
| Creation of 14 advisory boards to help sustain the resource centers, beginning 2009† | Ten were established, but not until nearly the end of LINCS in 2011. Thus, critical steps that advisory boards took to help ensure sustainability, like developing proposals for generating income, were addressed in the closeout plan and not earlier in the program. |
| Seven annual conferences to take place between FY 2009 and FY 2011 | Only four conferences took place throughout the project. None occurred in Blue Nile, Southern Kordofan, or Upper Nile States. |
| Completion of a sixth community radio station by September 2010 | As of the end of the program, this station had not been built. (It went on the air in September 2011.) |

* While the Juba civic engagement center is included among the 14 resource centers, it is classified differently because it supports and is available to additional civil society networks in the South Sudanese capital.
† The audit discusses the sustainability of the boards and the resource centers in more detail on pages 17 and 18.

Mercy Corps failed to complete these deliverables on time. A number of problems contributed to LINCS' poor performance. A major factor was Mercy Corps' expulsion in March 2009. This absence caused major delays in completing program deliverables, like registering CSOs, and disrupted the organization's ability to operate in the Three Areas. Furthermore, since it worked in areas claimed by northern Sudan and the Sudan People's Liberation Army (representing southern Sudan), Mercy Corps had to contend with internal roadblocks even in southern Sudan.

The expulsion also resulted in Turalei being chosen as the location for a replacement resource center, delaying delivery of that center. In FY 2010, Mercy Corps was able to return to northern Sudan as MC Scotland and register 16 CSOs in Blue Nile State. Had it not been for the expulsion, Mercy Corps likely would have met this target on time.

In addition, difficulties in obtaining land contributed to delays in building resource centers in Juba, Renk, and Kadugli. Obtaining land is not a formalized process in Sudan and often depends on cultivating personal relationships with government officials and coordinating efforts across numerous state and national ministries. Mercy Corps cited difficulties with land allocation in its response to a letter of concern from a former USAID/Sudan official regarding LINCS' performance.

The sixth community radio station was not completed on schedule because of delays in deciding where to locate it. According to an Internews official,[6] Lainya, a town south of Juba, was proposed by Internews but ultimately rejected by USAID in favor of Nasir in Upper Nile State after lengthy deliberations. The official said Internews was still awaiting approval of a procurement waiver for a transmitter in order to complete the station.[7] USAID had still not issued the waiver when the audit team finished fieldwork.

Mercy Corps' management prioritized spending on its residential and office compounds instead of completing program deliverables. A former LINCS official questioned expenditures for repairing these compounds while resource centers had not been completed and planned state conferences were cancelled. Moreover, support for advisory boards was inadequate given their importance in helping to ensure resource center sustainability. This official, whose views were corroborated in an independent evaluation, said the management structure, high turnover, and a lengthy approval process caused delays in providing subgrants and making procurements; the audit discusses this problem at length in the finding about key personnel approval on page 19.

According to mission officials, USAID had concerns with Mercy Corps' unsatisfactory performance as early as 2007. However, the mission was limited in its ability to dictate direct actions because LINCS was implemented through a cooperative agreement (as opposed to a contract), and USAID involvement was limited to the "substantial involvement" clause.[8] USAID did exercise its authority by rejecting a proposed chief of party it considered unqualified. As the program progressed, USAID made numerous requests for budget and programmatic clarifications that were answered unsatisfactorily by Mercy Corps, ultimately culminating in USAID's decision to terminate the program.

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[6] Internews is a subgrantee of Mercy Corps working on the community radio program under LINCS. Activities in this program focus on constructing and operating radio stations throughout South Sudan in order to increase citizens' access to information on relevant political and development topics. After LINCS ended, Internews continued to operate under its own contract with USAID.

[7] USAID contracts or agreements typically contain a geographic code that designates specific countries from which the awardee is authorized to buy goods and services. A waiver is required if a USAID recipient needs to buy goods outside the authorized geographic code and has met other administrative requirements.

[8] According to ADS 303, Office of Management and Budget policy on substantial involvement states that agencies "should limit their involvement in assisted activities to the minimum consistent with program requirements." Substantial involvement consists of the following: approval of the recipient's implementation plans; approval of specified key personnel; agency and recipient collaboration or joint participation; and agency authority to halt a construction activity immediately.

In the wake of decades of civil war and institutional neglect, strengthening civil society is crucial to developing a lasting peace and a stable, viable South Sudan. As part of this effort, resource centers support new CSOs by providing training and networking opportunities and access to information and media technology. Just as important, resource centers enhance the organizations' credibility with local governments. Failing to establish the number of resource centers originally envisioned denied some CSOs those benefits and jeopardized the sustainability of any improvements in organizational capacity that may have been achieved. Delays in establishing CSOs and providing grants for community projects prevented civil society from being developed fully, and so did reducing the number of state conferences. As a result, the effectiveness and efficiency of U.S. Government funds committed to the LINCS program were not maximized.

Although the mission does not plan to launch a new program to replace Mercy Corps this year, it has budgeted FY 2013 funding to reassess support with civil society activities. In the interim, the mission plans to continue its work with civic education and advocacy CSOs through its program with the National Democratic Institute. Because of these actions, the audit does not make a recommendation.

## Government Services Program Did Not Reach Targets or Implement Planned Activities

In support of the CPA, USAID/Sudan established MC-BRIDGE to make visible investments in targeted communities and to improve local governments' capacity to deliver vital services. According to Mercy Corps, MC-BRIDGE implemented many activities toward these goals, including training and providing assistance to 3,527 government staff and entities, bringing electricity to the town of Kurmuk in Blue Nile State, and supporting 14 health clinics and the only hospital in Kurmuk through a partnership with the Ministry of Health.

Despite these accomplishments, the audit found that MC-BRIDGE did not achieve its main goals. RIG/Pretoria analysis shows that MC-BRIDGE achieved targets for only 13 out of 31 performance indicators, even though Mercy Corps reduced nearly all of its targets in the second quarter of FY 2011 to zero or to equal what had been accomplished already. Table 2 shows the differences between original and revised targets for selected indicators.

**Table 2. Targets Versus Results for Selected MC-BRIDGE Performance Indicators (Unaudited)**

| Indicator | Original Target | Revised Target | Results | Percentage of Original Target Achieved | Percentage of Revised Target Achieved |
|---|---|---|---|---|---|
| Number of consensus building processes assisted by USAID | 330 | 58 | 54 | 16 | 93 |
| Number of people in target areas with access to improved drinking water supply as a result of U.S. Government interventions | 767,016 | 109,637 | 285,464 | 37 | 260 |
| Number of individuals trained in good health and hygiene practice | 71,059 | 46,049 | 11,970 | 17 | 26 |

| | | | | | |
|---|---|---|---|---|---|
| Number of parent-teacher associations or similar school governance structures trained | 116 | 78 | 25 | 22 | 32 |
| Number of textbooks and other teaching and learning materials provided with U.S. Government assistance | 248,033 | 144,357 | 43,460 | 18 | 30 |
| Number of individuals who have received U.S. Government supported short term agricultural sector productivity training | 16,338 | 7,288 | 4,843 | 30 | 66 |

MC-BRIDGE did not implement a large number of planned activities. One key example was the establishment of ten local planning units, which the FY 2011 work plan identified as the main governance focus for the remainder of the program. A Mercy Corps official said only three would be established by the end of the program. Similarly, a different Mercy Corps official said 11 of 18 tangible improvement projects planned in Upper Nile State for the third year would be cancelled or implemented only partially by the end of MC-BRIDGE. Several MC-BRIDGE staff members mentioned comparable delays and cancellations in the Three Areas.

Although USAID, Mercy Corps, and consortium partners acknowledged some achievements, they agreed that MC-BRIDGE did not achieve its goals. Some of the training activities did not meet the expectations of mission staff for participation, quality, or content. Mercy Corps officials questioned the quality and sustainability of several completed construction projects, and consortium partners noted that Mercy Corps was unable to implement the program effectively, citing staffing and management problems.

Several factors contributed to substandard performance, some of which were outside the control of the mission or Mercy Corps. For example, when Sudan expelled Mercy Corps and consortium partner Save the Children Federation in 2009, all activities in Southern Kordofan State halted, and Mercy Corps was unable to focus on leading the MC-BRIDGE consortium. MC-BRIDGE sought to build upon the optimistic—albeit unstable—political atmosphere following the signing of the CPA, and its success depended upon the two major political parties representing northern and southern Sudan maintaining the will to work together. When this will began to disintegrate, so did the program's foundation. Additionally, many activity sites were inaccessible in the rainy season because of poor infrastructure, and Mercy Corps cancelled some activities and evacuated some MC-BRIDGE staff because of insecurity. Notably, at the time of audit fieldwork, Mercy Corps officials were unsure of the status of any activities in the Three Areas because all staff had been evacuated from those locations.

However, mismanagement by USAID and Mercy Corps significantly contributed to substandard performance. As designated consortium leader, Mercy Corps was responsible for overseeing consortium-wide planning, monitoring, and evaluation, and ensuring coordination among partners at the program level. Despite these responsibilities, Mercy Corps initiated only two meetings involving all consortium partners, and monitoring and evaluation activities were not coordinated until midway through the program. Consortium partners said they did not regularly interact, strategize, or link with each other's activities, and some partners did not meet with Mercy Corps until months after starting MC-BRIDGE activities. Consortium partners implemented programs based on their own priorities, rather than those of MC-BRIDGE.

Mismanagement also led to stakeholders having very different visions of MC-BRIDGE. USAID staff, for example, emphasized good governance goals, while consortium partners emphasized delivery of services, such as water and sanitation. According to USAID, Mercy Corps managers did not understand the concept of MC-BRIDGE. Mercy Corps staff said USAID was not clear about what it wanted to achieve, and mission employees had different ideas about the program's vision.

Mercy Corps and USAID also had poor staffing structures for MC-BRIDGE. The Mercy Corps team that developed the proposal included top experts on Sudan and the Three Areas. This experience was critical because, as noted by a USAID official, success in the north and the Three Areas was contingent on personal relationships, persistence, and political maneuvering. Following Mercy Corps' expulsion, however, some of these people were not allowed to return to Sudan, and others had taken different jobs. The new team did not have the same experience needed for success in the Three Areas. At USAID, frequent staff turnover disrupted program management, and some agreement officer's representatives (AORs)—who oversee the daily administration of awards—felt constrained by the substantial involvement limitations of a cooperative agreement. Additionally, four USAID technical divisions within the Juba office participated in managing MC-BRIDGE, while the AOR was situated in Khartoum. Coordination between the Juba and Khartoum offices was difficult, especially given travel restrictions and competing priorities of mission staff.

Finally, MC-BRIDGE yearly work plans were not submitted or approved in a timely manner, which prevented effective planning, budgeting, and implementation. Some work plans lacked detail and had to be redone, while Mercy Corps simply submitted other work plans late, after the implementing period had started. USAID delayed approving work plans because of required revisions, staff turnover, and other priorities. These problems came to a head in the third year when USAID removed several activities from the work plan before approving it. Caught unaware, consortium partners had to cancel many activities they had planned, promised, or started. This reversal in plans strained their relationships with local governments and reflected poorly on USAID, especially in the Three Areas.

The audit found many examples of substandard performance with MC-BRIDGE. A Mercy Corps official described an $81,600 project to build four poultry houses in the Abyei area as a complete fiasco because Mercy Corps had no technical expertise in constructing or operating poultry houses. Although the buildings were constructed, they never housed chickens, in part because Mercy Corps forgot to include a water source. Similar situations included waste pits that were overflowing; latrines that were too shallow or poorly constructed to be sustainable; five out of seven boreholes for potable water consumption drilled in Baliet County (Upper Nile State, South Sudan) that were unproductive largely because of the contractor's error and for which the contractor was still paid $18,000; and the vocational training center in Mabaan County, Upper Nile State, which had not been finished despite significantly exceeding its timeline and budget (page 12).

Consequently, MC-BRIDGE spent $28.1 million without achieving its planned results. According to one USAID official, MC-BRIDGE was a key instrument for upholding U.S. Government promises made during CPA negotiations. Had MC-BRIDGE achieved its goals, the prospects for improved governance and quality of life would likely have been enhanced. Ultimately, MC-BRIDGE was a missed opportunity to help achieve U.S. Government foreign policy objectives and promote peace and stability in the region.

USAID officials said they attempted to address these performance concerns over the course of MC-BRIDGE. While Mercy Corps took corrective action on some issues, mission officials felt it did not address certain critical issues such as late submission of the third-year work plan and lack of documentation for construction projects, both of which caused delays in implementation. On February 7, 2011, USAID/Sudan announced that it was not funding the remainder of the Mercy Corps agreement.

Because MC-BRIDGE has ended, the audit is not making any recommendations that address its particular shortcomings. However, to reduce the likelihood of these problems occurring in the future, the audit makes the following recommendations.

***Recommendation 1.*** *We recommend that USAID/South Sudan, in coordination with USAID/Sudan, develop and implement a plan to improve management of projects, programs, and activities that span both Sudan and South Sudan, with particular attention to any that involve multiple technical offices.*

***Recommendation 2.*** *We recommend that USAID/South Sudan develop and implement procedures to ensure that recipients' annual work plans are submitted, reviewed, and approved in a timely manner.*

## Mercy Corps Implemented Some Activities Without Prior Approval

As a recipient of USAID funds, Mercy Corps was responsible for complying with—and ensuring that consortium partners also were complying with—Agency and federal regulations to promote wise use of taxpayer funds and to prevent USAID from unintentionally harming beneficiaries. Three such regulations applicable to MC-BRIDGE required USAID approval of (1) construction projects that cost more than $100,000, (2) restricted goods, including pharmaceuticals and agricultural commodities, prior to procurement, and (3) completed environmental assessments before project implementation, including water tests for arsenic and fecal coliform for projects involving potable water supplies.[9]

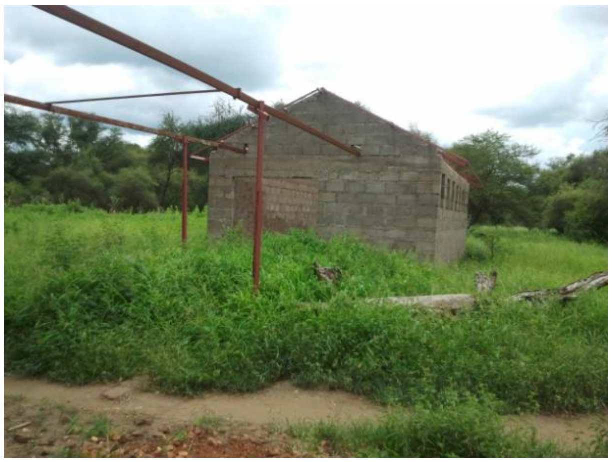
Automated Directives System (ADS)[10] 303.3.18 notes that failure to comply with these requirements generally causes USAID to deem associated costs unallowable. Nevertheless, Mercy Corps did not ensure compliance as required.

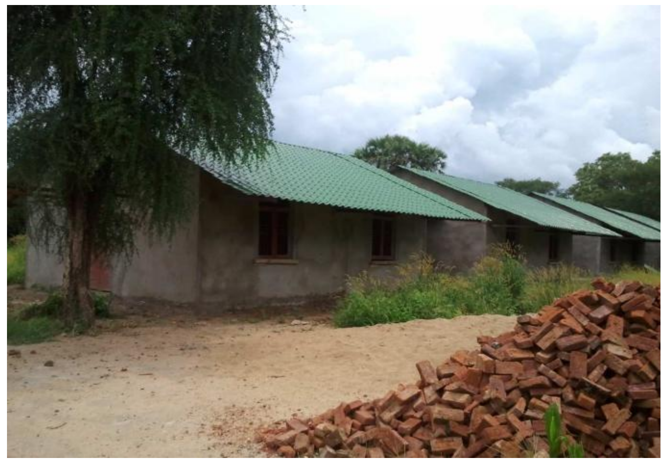
First, Mercy Corps did not obtain USAID approval for construction projects that cost more than $100,000. Mercy Corps did not submit complete information to USAID for approval until February 25, 2011, the third year of the program, and there is no evidence that either of the two agreement officers involved with MC-BRIDGE approved any of the projects on the list.

[9] 22 CFR 226.48, "Contract Provisions"; "Mandatory Standard Provisions for U.S. Nongovernmental Recipients: A Mandatory Reference for ADS Chapter 303," USAID Eligibility for Goods and Services, April 1998, 5–8; and 22 CFR 216 "Environmental Compliance," supplemented by a USAID cable on arsenic testing, May 12, 1998.

[10] Portions of ADS were revised in January, February, and March 2012. Because RIG/Pretoria conducted this audit before then, this report refers to the version of ADS that was in effect at that time.

One example is the vocational training center in Mabaan County, shown in the photographs below, built by consortium partner Norwegian People's Aid. Partner staff members said they sought approval from USAID through Mercy Corps because the center's estimated cost was $575,500, and this project was included in the list USAID received in February 2011. However, a progress report indicated that Mercy Corps gave its partner permission to begin construction in June 2010, before receiving USAID approval, because the Agency was "taking a long time" with other approvals, and it was important to start before the rainy season. While timeliness is certainly an important factor in any project, USAID approval of construction projects that cost more than $100,000 is important to ensure adequate protection of the U.S. Government's interests.





**The Mabaan County vocational training center, constructed under MC-BRIDGE, is incomplete. The structure on the left is an unfinished dormitory. On the right, a dormitory does not have windows or flooring yet. (Photos by Mercy Corps, September 2011)**

A Mercy Corps official who visited the center during audit fieldwork said he was "repulsed" by its condition. Ceilings, walls, and floors were nonexistent or incomplete in some structures. No water, plumbing, or septic systems were in place. No generators or electrical wiring were installed. None of the structures had been painted, and no glass was installed in doors or windows. In addition, the center was in a remote location that is essentially inaccessible during the rainy season. The MC-BRIDGE official estimated that Mercy Corps had provided Norwegian People's Aid a total of $1,125,000 to complete the project by the time RIG/Pretoria did its fieldwork.

The audit also found that Mercy Corps had not complied with Agency requirements to obtain USAID's approval before procuring or using some restricted goods, as shown in Table 3.

**Table 3. Restricted Goods Procured or Used for MC-BRIDGE Activities Without USAID Approval (Unaudited)**

| Consortium Partner | Restricted Good | Amount ($) (Unaudited) |
|---|---|---:|
| International Medical Corps | Medical equipment | 12,704 |
| Save the Children Sweden | Midwifery kits and medicines | 14,065 |
| World Vision Inc. | Goats<br>Seeds | 35,876<br>12,589 |

| | | |
|---|---|---|
| | Seeds | 6,020 |
| Norwegian People's Aid | Veterinary pharmaceuticals and supplies | 28,398 |
| | Medical supplies | 2,752 |
| **Total** | | 112,404 |

Although Mercy Corps staff members applied for some waivers, they did so after the restricted goods had been used. For example, Mercy Corps applied for the pharmaceuticals waiver in January 2011, but Norwegian People's Aid procured and distributed the pharmaceuticals in 2009 and 2010. A waiver for $10,324 in pharmaceuticals (included in Table 3) was approved on July 5, 2011. Similarly, Mercy Corps applied for seed and goat waivers in September 2010, after World Vision Inc. had already used the goods; moreover, the waiver to procure and distribute goats was never approved. While a Mercy Corps official maintained that not all of the amounts in Table 3 had been spent with USAID funds, since some partners have not been reimbursed by Mercy Corps pending documentation of prior approval, the audit has questioned the entire $112,404 for review and determination by the agreement officer.

Finally, Mercy Corps did not comply with USAID's environmental requirements. In some cases, Mercy Corps did not submit required environmental documentation until construction had started. In other cases, Mercy Corps told consortium partners to begin activities before USAID had approved the submitted documentation. For example, Mercy Corps permitted construction of a slaughterhouse in Abyei and the vocational training center in Mabaan County to begin before USAID approved the environmental review forms. Mercy Corps also did not verify that water tests were completed. Mercy Corps provided documentation of test results for 15 boreholes drilled in Mabaan County, but the tests did not cover arsenic or fecal coliform. Mercy Corps could not provide documentation to support arsenic or fecal coliform testing at any water sources constructed or refurbished under MC-BRIDGE, although USAID informed Mercy Corps on at least two occasions that it was responsible for maintaining these results.

These instances of noncompliance occurred because Mercy Corps misunderstood some regulations and intentionally overlooked others to further program objectives. Staff turnover and other priorities at USAID led to delays in reviews and approvals, lack of follow-up for missing documentation, and general lack of oversight. In one situation, 6 months elapsed before USAID/Sudan approved a waiver for seeds, leaving Mercy Corps insufficient time to procure and distribute the seeds before the onset of the rainy season.

Regarding the vocational training center in Mabaan County, a Mercy Corps official attributed the shortcomings to mismanagement by Norwegian People's Aid and a lack of oversight by Mercy Corps. Had the project undergone appropriate review and approval requirements, some of these problems could have been avoided. Current and former mission officials also admitted that USAID did not provide adequate oversight, partly because of difficulty obtaining travel permits and accessing the construction site; however, they noted that Mercy Corps never mentioned problems with the center and had never asked USAID for assistance. As a result, Mercy Corps spent approximately $1,125,000 in U.S. taxpayer funds on a poorly constructed, incomplete activity.

According to ADS 312, policies on restricted goods are intended to prevent USAID from causing accidental harm and to make sure that USAID programs are implemented in accordance with relevant laws and policies. Noncompliance with this provision put USAID at risk of violating regulations and unintentionally harming beneficiaries. Myriad environmental consequences could arise from MC-BRIDGE activities. Agency guidance states that water supply and sanitation projects may cause increased incidence of infectious diseases like cholera, noninfectious disease like arsenic poisoning, and water-enabled diseases like malaria. Construction and agriculture activities can also affect communities and surrounding areas by damaging ecosystems and contaminating ground water supplies.

To address these problems and reduce the likelihood of their reoccurring in the future, the audit makes the following recommendations.

> ***Recommendation 3.*** *We recommend that USAID/South Sudan determine the allowability of $1,125,000 in ineligible questioned costs (spent on substandard construction of the Mabaan County vocational training center and initiated without getting approval from the agreement officer first as required), and recover from Mercy Corps any amounts determined to be unallowable.*

> ***Recommendation 4.*** *We recommend that USAID/South Sudan determine the allowability of $112,404 in ineligible questioned costs (spent on restricted goods and without getting USAID's approval first as required), and recover from Mercy Corps any amounts determined to be unallowable.*

> ***Recommendation 5.*** *We recommend that USAID/South Sudan develop and implement a plan to ensure that all water points constructed or refurbished for human consumption under the Mercy Corps Building Responsibility for Delivery of Government Services Program be tested as required by Agency regulations, and resolve and document any issues identified.*

> ***Recommendation 6.*** *We recommend that USAID/South Sudan develop and implement procedures to require that water points constructed or refurbished in South Sudan with USAID funds be tested as required by Agency regulations.*

> ***Recommendation 7.*** *We recommend that USAID/South Sudan develop and implement procedures for timely review and approval of recipients' submissions to USAID for construction projects, waivers for procurement of restricted goods, and environmental assessments and testing.*

## Mercy Corps Charged Questionable Costs to USAID

In addition to the ineligible questioned costs discussed previously, the audit noted that Mercy Corps billed USAID for expenditures not allowable under U.S. Government rules and regulations. These expenditures are discussed below.

**Country Director Filed Inaccurate Time Sheets.** According to Office of Management and Budget Circular A-122, compensation costs are allowable when they are reasonable, allocable, and adequately documented. In practice, this means that salaries and associated compensation can be charged to U.S. Government programs only in proportion to the actual time spent working on them. Regarding documentation, Attachment B, Paragraph 8 m(2)(a) of the circular states that supporting records "must reflect an after-the-fact determination of the actual activity of each employee."

According to a senior Mercy Corps official, the organization's former country director in South Sudan was responsible for overseeing all Mercy Corps programs in the country. This included several funded by the European Union, in addition to the LINCS and MC-BRIDGE programs. However, a review of ten consecutive monthly time sheets (October 2010 through July 2011) indicated that each month the country director charged 50 percent of his time to LINCS and 50 percent to MC-BRIDGE; he uniformly recorded 4 hours of work each day to both programs. This allocation is unreasonable given the scope of the country director's responsibilities, which included oversight of European Union-funded programs that were ongoing through the end of his tenure in July 2011. In addition, the finance director in Juba said she spent approximately 10 to 20 percent of her time on European Union-funded projects.

Furthermore, contrary to Circular A-122, the former country director said he did not detail the actual hours worked but rather recorded what he thought was a fair reflection of his time. Although he said he was unfamiliar with the specific requirements of the circular at the time, the finance director said she raised the issue of time sheet accuracy with him, but he ignored her.

As a result, the LINCS and MC-BRIDGE programs were overcharged, reducing the funds available to achieve program objectives. Since Circular A-122 requires an after-the-fact determination of each employee's actual activity, and the former country director said that he did not complete his time sheets on that basis, the audit questions the entire salary, fringe benefits, and associated indirect costs of his employment with Mercy Corps. These costs amount to $201,604 ($105,072 LINCS and $96,532 MC-BRIDGE).

> ***Recommendation 8.*** *We recommend that USAID/South Sudan determine the allowability of $201,604 in unsupported questioned costs (pertaining to the employment costs of a former Mercy Corps country director), and recover from Mercy Corps any amounts determined to be unallowable.*

**Capital Expenditures in LINCS' Indirect Cost Calculations Were Treated Inconsistently.** Mercy Corps' negotiated indirect cost rate agreements[11] specify that capital expenditures over $5,000 must be excluded from the indirect cost base of application. The agreements also state that acceptance of the agreed-upon rate is conditional on similar types of costs being treated consistently. This is in accordance with basic cost principles under Circular A-122, which specify that costs must be afforded consistent treatment and be determined in accordance with generally accepted accounting principles.

Indirect cost calculations for the LINCS program excluded capital expenditures for items such as office compounds, vehicles, and resource center generators. However, expenditures for construction of the centers themselves were not excluded, despite the fact that construction of real estate and leasehold improvements typically are considered capital expenditures under generally accepted accounting principles. A Mercy Corps finance official explained that capital equipment is excluded from the indirect cost rate base because it is a capital asset. Moreover, Mercy Corps considers programmatic construction to be a service contract expense, which is not excluded because Mercy Corps does not retain ownership of what it constructs (in the case of LINCS, the resource centers).

Despite these assertions, Mercy Corps policy treats similar items inconsistently. For example, resource center generators are also programmatic in nature and are not owned by Mercy Corps; however, unlike the resource centers, these items are excluded from the indirect cost base.

[11] The negotiated indirect cost rate agreement includes the rate used to compute indirect costs incurred by Mercy Corps that are not charged as direct costs under the LINCS cooperative agreement.

Since the generators are programmatic yet excluded, the resource centers should be treated consistently. There is no apparent rationale for treating these similar items differently.

Since this inconsistent treatment violates one of the conditions specified in Mercy Corps' negotiated indirect cost rate agreements, indirect costs are overstated. Consequently, the audit questions indirect costs of $137,411, which represent the effect of not excluding resource center construction costs from the indirect cost base of application.

> ***Recommendation 9.*** *We recommend that USAID/South Sudan determine the allowability of $137,411 in ineligible questioned costs (arising from inconsistent treatment of capital expenditures in its indirect cost rate calculations), and recover from Mercy Corps any amounts determined to be unallowable.*

**Some LINCS Assets Will Provide Future Benefits to Non-U.S. Government Programs.** Circular A-122, Attachment A, paragraph A.2a, states that an allowable cost under an award must be allocable under the principles described in the circular. It then states that a cost is allocable to a particular activity in accordance with the relative benefits received. Section 2 of this paragraph describes an allocable cost as one that benefits both the award and other work, and can be distributed in reasonable proportion to those benefits. These criteria are to ensure that the U.S. Government bears no more than its fair share of the costs associated with its awards.

Despite these requirements, Mercy Corps has charged the cost of several office compounds to the LINCS program that it intends to use for other programs, including non-U.S. Government ones, after the conclusion of LINCS. According to a Mercy Corps document obtained during audit fieldwork, Mercy Corps intends to keep at least five compounds with an aggregate cost of $189,518 for future use by itself or MC Scotland. Without a reasonable allocation of these costs between LINCS and the other programs, the U.S. Government is bearing more than its equitable share of the cost.

In large part, Mercy Corps' plans regarding these compounds were indicative of a cavalier attitude toward cost allocation principles. According to a former LINCS official, Mercy Corps country managers did not understand the LINCS cooperative agreement well enough to ensure control of program costs. This official quoted one manager as saying, "Assets bought with LINCS money are Mercy Corps assets because there is no such thing as LINCS assets."

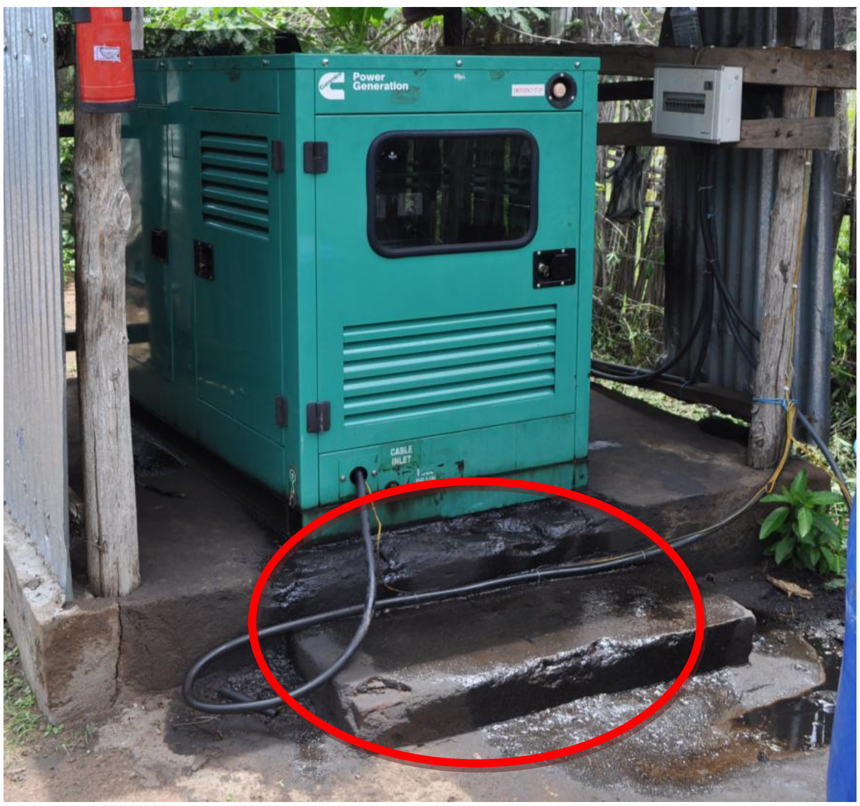
According to 22 CFR 226.32(c)(1), a recipient may retain title to real property by compensating the U.S. Government for that percentage of the current fair market value of the property attributable to the U.S. Government's participation in the project. Consequently, this audit makes the following recommendation.

> ***Recommendation 10.*** *We recommend that USAID/South Sudan require Mercy Corps to compensate USAID for any office compounds funded by the Localizing Institutional Capacity in Sudan Program that Mercy Corps intends to retain title to, in accordance with 22 Code of Federal Regulations, Section 226.32, and document the results of its determination.*

## Civil Society Resource Centers May Not Be Sustainable

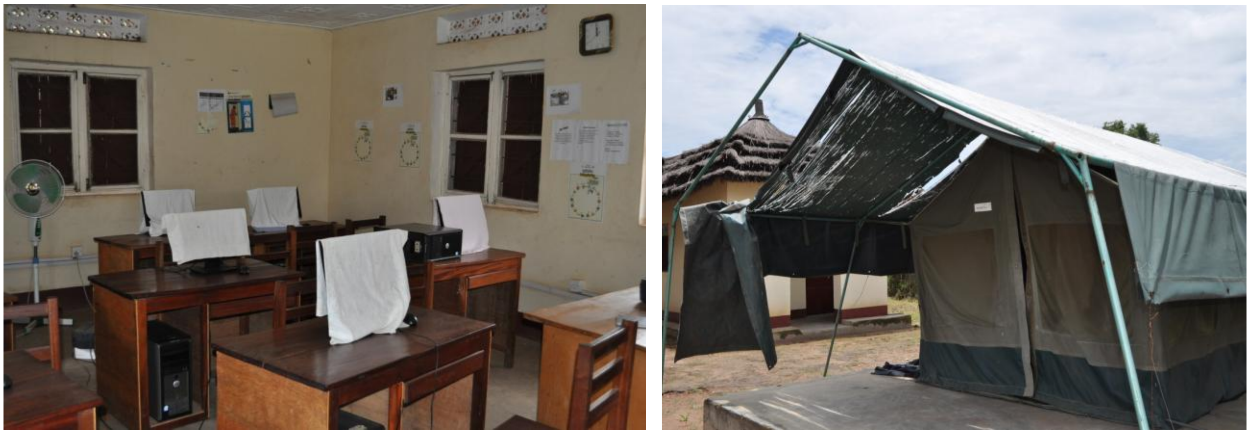
According to the LINCS closeout plan, a primary objective of the final phase was to transfer responsibility for managing resource centers to advisory boards. They were responsible for providing communities with training, information, and Internet services, as well as for maintaining the resource centers' buildings and equipment. The crucial importance of advisory boards in helping sustain the centers was recognized as early as September 2008 when the cooperative agreement was modified to call for the creation of the boards.

Despite this importance, auditors observed that advisory boards lacked the capacity and resources to operate their respective resource centers. During interviews, advisory board officials noted their inability to pay monthly phone, Internet, and fuel expenses, in addition to essential staff. At one resource center visited, the compound generator had an oil leak, as shown in the photograph below, and operated sporadically. At another center, the advisory board had been unable to pay satellite phone and Internet bills since Mercy Corps left. As a result, computer and Internet services were unavailable.




**The generator at the Lainya resource center has an oil leak (circled) and works sporadically. (Photo by RIG/Pretoria, August 2011)**

Throughout visits, advisory board members pointed out residential and work structures in need of repair, as shown in the photographs below. These officials emphasized that they could not operate resource centers without more funding and suggested that USAID continue to support them.



**These photos show LINCS program sites in Central Equatoria State, South Sudan. On the left is an unused computer room without Internet access in Yei. On the right is a dilapidated lodging tent on the compound in Lainya. (Photos by RIG/Pretoria, September 2011)**

In order to cut costs, some advisory boards have opened their computer rooms to the public as fee-based Internet cafes. Tours of these rooms and reviews of associated computer logs (Appendix IV) showed that the computer activity observed during our visits was rarely consistent with the original goal of fostering civil society. While struggling to maintain the financial viability of resource centers, the advisory boards were not able to focus on promoting civil society organizations and training.

The LINCS closeout plan also stated that Internews would continue to establish community radio advisory boards when the program concluded. Despite this intent, an Internews radio station manager said he had never heard of these activities.

The advisory boards' lack of capacity was partially a result of their delayed formation. Although the cooperative agreement was modified in 2008 to require advisory boards, the CSOs first needed to be formed and trained before the boards could be established. The boards' formation was delayed again in FY 2010 because of the amount of time it took to establish local task forces to elect board members and to draft governing documents. Furthermore, several advisory boards were unable to produce detailed budgets showing the source and use of funds. Without such rudimentary managerial skills, advisory board-operated resource centers cannot operate resource centers sustainably, even with assistance from an outside donor.

Consequently, advisory board-operated resource centers risk becoming obsolete, empty structures, unable to fulfill their original intent of providing access to training and information to promote civic engagement. Current and former LINCS officials, as well as mission officials, confirmed that the inability to establish advisory boards early hurt the centers' chances of survival. Currently, the mission does not plan to work with advisory boards, but it has taken steps to hire a consultant through its National Democratic Institute program to assist with resource center sustainability. Consequently, the audit does not make a recommendation on this issue.

## Key Mercy Corps Official Was Not Subject to USAID Approval

The LINCS chief of party is included in the category of "key personnel" in the cooperative agreement. The position description from Modification 7 in 2008 states that the chief of party is “responsible for the . . . fiscal management of the LINCS program” and “has responsibility for maintaining working relationships with the donor” and other stakeholders. This role was reinforced by an organizational chart in the cooperative agreement, showing that the finance director would report to the chief of party. Given the importance of the chief of party’s responsibilities, whoever filled this position was subject to USAID approval.

In practice, however, the Mercy Corps country director controlled LINCS’ finances. For example, a former LINCS official said the country director firmly insisted on “100 percent budget line flexibility” for the LINCS program, allowing the use of LINCS funds for Mercy Corps operational costs rather than LINCS program deliverables. This insistence led to a number of disagreements regarding resource allocation and ultimately the termination of the former official. An independent midterm evaluation confirmed these observations, stating that some LINCS personnel felt the organizational structure made it difficult to obtain necessary assets and reduced the funding available for project implementation.

According to a former chief of party and the midterm evaluation, Mercy Corps’ supporting departments, such as finance, human resources, and operations, reported to the country director, while only the technical program reported to the LINCS chief of party. In addition, the chief of party reported to the country director. A senior Mercy Corps official said this arrangement was typical for large international nongovernmental organizations. However, despite the importance of the country director in Mercy Corps’ overall management structure, this position was not included in the category of key personnel subject to USAID approval.

According to a former LINCS chief of party, this management structure ultimately prevented her from exercising effective budgetary control, and as a result, Mercy Corps prioritized spending on office compounds instead of building resource centers, which were already behind schedule. These priorities further impeded progress toward fulfilling LINCS’ deliverables. The subsequent internal disputes between the chief of party and the country director created communication problems between Mercy Corps and USAID because the country director prohibited the former chief of party from communicating with the Agency. This restriction also was contrary to the chief of party’s position description, which made that person responsible for maintaining working relationships with USAID and other stakeholders.

USAID requires approval of key personnel so that appropriate people are hired for critical positions. In this case, an official who exercised decision-making authority was not subject to any approval from the Agency. Accordingly, to make sure USAID maintains oversight of future programs, the audit makes the following recommendation.

> ***Recommendation 11****. We recommend that USAID/South Sudan develop and implement a plan for future agreements to require USAID approval of employees who perform duties described in key personnel position descriptions.*

## Branding for Both Programs Was Ineffective

Section 641 of USAID’s framework legislation, the Foreign Assistance Act of 1961, codified as amended in 22 U.S.C. 2401, specifies that all programs under the act be identified appropriately as “American Aid.” Additionally, ADS 320.3.1 states that implementing partners must communicate through their marking plan that the assistance is from the American people.

Both the LINCS and MC-BRIDGE cooperative agreements contained provisions for branding and marking USAID-funded activities, including submitting a branding strategy and marking plan for approval. Table 4 outlines some of these requirements.

**Table 4. Selected Branding and Marking Requirements Under LINCS and MC-BRIDGE**

| Activity | LINCS* | MC-BRIDGE |
|---|---|---|
| Construction, infrastructure improvement, or establishment of resource centers | Locally produced wooden sign outside of each center (exception requested for the Three Areas) | Temporary billboard located in front of the site during construction |
| Trainings and events | A temporary banner displayed during each conference | A banner located at the front of the meeting site for the duration of the meeting |
| Commodities (school supplies, desks, computers, etc.) | Permanent USAID stickers affixed to the monitor of each computer | Sticker or similar marking device affixed to the item |
| Training and other print materials | USAID logo along with standard acknowledgment and disclaimer language printed on material | Donor acknowledgment printed inside the back cover of major training materials |

* These were elements of the branding and marking plan submitted by LINCS but never approved by USAID.

However, Mercy Corps did not always comply with the requirements and did not communicate USAID's sponsorship of LINCS and MC-BRIDGE activities effectively.

Under LINCS, USAID-funded equipment such as generators and furniture were unmarked at four resource centers the audit team visited, and one center's street sign lacked USAID branding. Under MC-BRIDGE, materials at a training session auditors observed in Malakal (Upper Nile State) were not branded with the USAID logo. Two people affiliated with local planning units in Melut and Mabaan said computers, office supplies, and furniture were not marked with USAID stickers. Further, items that were branded showed the MC-BRIDGE logo instead of USAID's, despite the approved branding strategy and marking plan stating that a separate project logo should not be developed and "no other logos or identities will be used on project materials, other than that of USAID, Mercy Corps and its partners."

More significantly, eight of nine LINCS beneficiaries interviewed did not know of USAID's involvement with the program. Five of nine top government officials from Upper Nile State—one of whom was a presenter at ongoing MC-BRIDGE training—were either unaware of USAID's involvement with MC-BRIDGE or unaware of the program at all. Most participants interviewed did not know that USAID had paid for the training, materials, and accommodations, which cost approximately $54,000. Although Mercy Corps displayed a banner in the training facility, it was difficult to see and was written only in English for a largely Arabic-speaking audience. Implementers said they generally tried to follow applicable requirements, but the interviews with beneficiaries indicated that branding and marking efforts were not effective.

These weaknesses occurred in part because the mission never formally approved the LINCS branding strategy and marking plan. Although Mercy Corps submitted a plan, the AOR said she needed assistance on some issues, such as permissible branding exceptions, prior to recommending approval. However, there was no designated person at the mission to respond to her inquiries, and her requests to the mission's program office were never answered. As a result, the mission never approved the submitted plan. According to the AOR, the lack of an approved plan also made her site visits less effective because she did not know what branding was required or which exceptions were allowed.

Although the MC-BRIDGE branding and marking plan was incorporated into the cooperative agreement, Mercy Corps staff members were complacent about communicating USAID's sponsorship to beneficiaries. For example, at the MC-BRIDGE training, staff members agreed with the auditor's observation that most participants were unaware of USAID's involvement. Mercy Corps staff had placed the training banner at the front of the room as instructed, but made no additional efforts to communicate this message when it became clear that the basic branding and marking requirements were not sufficient. While some consortium partners felt Mercy Corps periodically stressed the importance of branding and marking in MC-BRIDGE, insecurity and difficult logistics prevented mission staff from regularly monitoring branding compliance and effectiveness and providing feedback to Mercy Corps.

USAID is considered a good news story of U.S. foreign policy, and making sure that the American people are recognized for their generosity in funding foreign assistance has been a long-standing U.S. Government objective. Without clear, effective branding, the U.S. Government and the American people are denied the public diplomacy benefits of their foreign assistance. Accordingly, the audit makes the following recommendations.

> ***Recommendation 12****. We recommend that USAID/South Sudan (1) designate in writing a branding and marking subject matter expert, and (2) develop and implement a plan to educate implementing partners on devising effective branding strategies.*

> ***Recommendation 13.*** *We recommend that USAID/South Sudan develop and implement procedures for monitoring the implementation and effectiveness of approved branding strategies and marking plans during site visits, including alternative monitoring procedures if security or logistical constraints preclude actual visits.*

## Performance Data Were Not Useful

According to ADS 203.3.4, a performance indicator is a particular characteristic used to observe progress and to compare actual results with expected ones. Performance indicators should be unambiguous, closely track the results they were intended to measure, and be defined precisely in the performance management plan. ADS 203.3.5.1 adds that the data should meet the five data quality standards of validity, integrity, precision, reliability, and timeliness to be useful in managing for results and credible for reporting.

Contrary to these requirements, MC-BRIDGE reported on indicators inconsistently and in some cases reported activities under indicators with which they were only loosely associated because the activity was not captured anywhere else. For example, the indicator to capture local government capacity building included vocational training in textiles, bricklaying, and carpentry. Mercy Corps staff members said they accepted this situation instead of revising indicators again or not reporting consortium partner activities.

Further, the MC-BRIDGE monitoring and evaluation team found that FY 2009 reported results were largely unsupported, and documentation for FY 2010 and 2011 results was lacking and inconsistent. Table 5 shows the results of auditors' tests to verify performance data.

**Table 5. FY 2010 Targets and Results for Selected MC-BRIDGE Indicators in Upper Nile State (Audited)**

| Indicator | Target | Reported Result | Result Verified by Mercy Corps | Result Verified by Audit Tests |
|---|---|---|---|---|
| Number of people who received training to strengthen local government/decentralization | 315 | 263 | 294 | 245 |
| Number of staff trained (clinical officers, midwives, and community health workers) each year on family planning and reproductive health | 49 | 129 | 107 | 84* |
| Number of people in target areas with access to improved drinking water supply as a result of U.S. Government interventions | 48,310 | 25,000 | 35,080 | Unable to be verified |
| Number of students enrolled in U.S. Government-supported primary schools or equivalent settings | 800 | 694 | 130 | Unable to be verified |
| Number of individuals who have received U.S. Government-supported, short-term agricultural sector productivity training | 2,500 | 1,504 | 1,104 | 1,127 |

* This number includes 53 participants in general refresher training for traditional birth attendants. However, as discussed in the following section, the mission does not sanction training of this kind in South Sudan.

Data quality assessments performed in FY 2010 also revealed these problems.[12] Some performance indicator data did not meet USAID's quality standards, while assessments could not be completed for other indicators because subgrantees had not submitted required data. Consequently, Mercy Corps asked its consortium partners in December 2010 to improve data collection and reporting; however, their activities were phased out before any improvements could be made.

These problems stemmed from a weak monitoring and evaluation system at the beginning of MC-BRIDGE. According to a former official, at the beginning of the program consortium partners told Mercy Corps which custom indicators they would be using for their independent activities. Consequently, MC-BRIDGE reported on 131 uncoordinated indicators in the first year, despite the cooperative agreement's requirement to hold "a consultative workshop" among consortium partners at the start of the program to "finalize common indicators and develop tools and processes for data collection and monitoring activities."

Although Mercy Corps reduced the number of indicators in the program's second year, the new ones were inadequate given the breadth and complexity of MC-BRIDGE. Monitoring and evaluation staff said the new performance indicators were not well defined and that Mercy Corps, consortium partners, and USAID did not have the same understanding of what was being measured. These shortcomings occurred in part because the MC-BRIDGE performance

[12] As indicated in ADS 203.3.5.2, the purpose of a data quality assessment is to ensure that the USAID mission is aware of the strengths and weaknesses of performance data, and is aware of the extent to which the data integrity can be trusted to influence management decisions. Data quality assessments are required every 3 years for data reported to Washington for Government Performance and Results Act reporting or for reporting externally on Agency performance.

management plan was never finalized. The initial plan was not approved because it lacked baseline data and performance targets; subsequent plans were not approved because of ambiguity regarding performance indicators and what was to be measured. Staff turnover and general lack of oversight by USAID and Mercy Corps also affected development and approval of the performance management plan.

As a result, MC-BRIDGE performance data were not useful for making decisions or credible for reporting. However, since MC-BRIDGE has ended and the mission has established a corrective action plan to alleviate understaffing and strengthen staff training, which should improve future program oversight, the audit does not make a recommendation in this area.

## Government Services Program Provided Unsanctioned Training

RIG/Pretoria issued the "Audit of USAID/Sudan's Maternal and Child Health Activities" (Report No. 4-650-11-010-P) on July 28, 2011. The audit found that USAID/Sudan's maternal and child health strategy inadvertently relied on TBAs. In its response to the audit report, USAID noted that neither the Government of South Sudan's Ministry of Health nor the international medical community, including the World Health Organization, considered TBAs—trained or untrained—qualified to provide safe deliveries. Therefore, according to mission officials, TBA training should not have been conducted with USAID funds.

Despite this assertion, the current audit found that MC-BRIDGE consortium partners were training TBAs with USAID funds. Several program reports even emphasized MC-BRIDGE's focus on TBA training and highlighted it as a primary achievement. According to these reports, at least 93 TBAs were trained under MC-BRIDGE with USAID funds.

According to Mercy Corps staff members, USAID did not inform them of the mission's policy regarding TBA training even though Mercy Corps discussed such training in work plans and progress reports. Key USAID health officials also were unaware of the mission's policy or its response to the prior audit report. This occurred in part because some mission officials involved in the prior audit had left the mission, and others were on extended leave. Further, USAID had not clearly communicated the TBA training policy to mission staff and implementing partners.

The international medical community does not sanction TBA training as an effective means of reducing maternal mortality; additionally the training is inconsistent with the Government of South Sudan's policy. Therefore, such training is not an effective use of U.S. taxpayer funds for achieving the mission's maternal and child health goals. Further, TBA training may promote deliveries assisted by unskilled staff, which contravenes the mission's strategy and is potentially harmful to intended beneficiaries. Accordingly, the audit makes the following recommendation.

> ***Recommendation 14.*** *We recommend that USAID/South Sudan develop a mission order regarding its policy on traditional birth attendant training and disseminate the policy to staff and implementing partners, as appropriate.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/South Sudan agreed with all 14 recommendations. Management decisions have been reached on nine recommendations. In accordance with ADS 595, Recommendations 3, 4, 8, and 9 remain open pending the agreement officer's determination of the allowability of questioned costs and a target date for the collection of any disallowed amounts. Recommendation 10 remains open pending the agreement officer's determination of any compensation required in connection with Mercy Corps' retention of certain office compounds built with USAID funds. A detailed evaluation of management comments follows.

**Recommendation 1.** USAID/South Sudan agreed to develop and implement a plan, in coordination with USAID/Sudan, to improve management of projects, programs, and activities that span both Sudan and South Sudan, with particular attention to any that involve multiple technical offices. USAID/South Sudan noted continuing efforts to reduce its reliance on USAID/Sudan's personnel and systems. For example, USAID/South Sudan added a legal advisor and a supervisory contracting/agreement officer to its staff to provide services once provided from the USAID/Sudan office. The missions are dividing programmatic activities into two separate country programs; by September 30, 2012, USAID/South Sudan and USAID/Sudan plan to award two new contracts to take the place of the one remaining activity with aspects of joint management. Further, mission management does not envision undertaking joint north-south programs in the future. As a result, a management decision has been reached on Recommendation 1.

**Recommendation 2.** USAID/South Sudan agreed to develop and implement procedures to help ensure the timely submission, review, and approval of recipients' annual work plans. USAID/South Sudan officials said they revised the staffing plan to increase the number of staff to manage programs and provide monitoring, training, and oversight of AORs. They said this change would improve procedures for reviewing and approving work plans, and would improve oversight of partners. The mission plans to submit all personnel request forms for the revised staffing plan by January 31, 2013. In addition, USAID/South Sudan plans to require AORs to document affirmation of current work plans during the mission's annual portfolio reviews, starting with the next review to be held before December 31, 2012. As a result, a management decision has been reached on Recommendation 2.

**Recommendation 3.** USAID/South Sudan agreed to determine the allowability of $1,125,000 in ineligible questioned costs (spent on substandard construction of the Mabaan County vocational training center and initiated without getting approval from the agreement officer first as required), and recover from Mercy Corps any amounts determined to be unallowable. A management decision for Recommendation 3 is pending the agreement officer's determination of the allowability of questioned costs and a target date for the collection of any disallowed amount.

**Recommendation 4.** USAID/South Sudan agreed to determine the allowability of $112,404 in ineligible questioned costs (spent on restricted goods and without getting USAID's approval first), and recover from Mercy Corps any amounts determined to be unallowable. A management decision for Recommendation 4 is pending the agreement officer's determination of the allowability of questioned costs and a target date for the collection of any disallowed amount.

**Recommendation 5.** USAID/South Sudan agreed to develop and implement a plan to ensure that all water points constructed or refurbished for human consumption under MC-BRIDGE are tested as required by Agency regulations and resolve and document any issues identified. USAID/South Sudan said it will ask Mercy Corps to collect samples from the 15 boreholes in Mabaan County, and in later discussion revised this response to cover all MC-BRIDGE water points in Upper Nile State. Mission officials plan to ask Mercy Corps to submit the samples for a full analysis and cap water sources that do not meet testing requirements and cannot be made potable. No water sources in the Three Areas are included since they are no longer under USAID/South Sudan's jurisdiction. The mission requested to revise its target completion date for these actions to April 30, 2013, given the recent violence in the country's border regions with Sudan. As a result, a management decision has been reached on Recommendation 5.

**Recommendation 6.** USAID/South Sudan agreed to develop and implement procedures to require that water points constructed or refurbished in South Sudan with USAID funds be tested as required by Agency regulations. USAID/South Sudan said it would disseminate the Agency's procedures for water testing to AORs, implementing partners, the Government of South Sudan's Ministry of Water Resources and Irrigation, and other technical experts within USAID by January 31, 2013. Mission management added that these regulations would be emphasized to implementing partners in South Sudan and monitored through regular site visits. As a result, a management decision has been reached on Recommendation 6.

**Recommendation 7.** USAID/South Sudan agreed to develop and implement requirements for timely review and approval of recipients' submissions for USAID approval. In addition to adding the key positions of legal advisor and supervisory contract/agreement officer, which should improve the review and approval process, USAID/South Sudan noted that it has already disseminated a preobligation checklist for tracking these requirements. This checklist includes line items for environmental documentation and waivers, and must be cleared by the technical, program, and contracting offices prior to more funds being given. Further, a Foreign Service National will become the mission's full-time environmental officer and will assume responsibility for daily oversight of environmental compliance by April 30, 2013, as noted by the mission in a follow-up discussion. The mission also said that it has already disseminated an "Environmental Compliance Tracking Matrix," which will help the mission environmental officer track environmental compliance needs, requirements, and concerns, and respond to them in a timely manner. As a result, a management decision has been reached on Recommendation 7.

**Recommendation 8.** USAID/South Sudan agreed to determine the allowability of $201,604 in unsupported questioned costs (pertaining to the employment costs of a former Mercy Corps country director), and recover from Mercy Corps any amounts determined to be unallowable. A management decision for Recommendation 8 is pending the agreement officer's determination of the allowability of questioned costs and a target date for the collection of any disallowed amount.

**Recommendation 9.** USAID/South Sudan agreed to determine the allowability of $137,411 in ineligible questioned costs (arising from inconsistent treatment of capital expenditures in its indirect cost rate calculations), and recover from Mercy Corps any amounts determined to be unallowable. A management decision for Recommendation 9 is pending the agreement officer's determination of the allowability of questioned costs and a target date for the collection of any disallowed amount.

**Recommendation 10.** USAID/South Sudan agreed to have Mercy Corps compensate USAID for any office compounds funded by the LINCS program that the organization intends to retain title to, in accordance with 22 CFR 226.32, and document the results of its determination. A management decision for Recommendation 10 is pending the agreement officer's determination of any compensation required and a target date for collection of the required amount.

**Recommendation 11.** USAID/South Sudan agreed to develop and implement a plan for future agreements to require USAID approval of employees who perform duties described in key personnel position descriptions. For all future awards, USAID/South Sudan will make sure that the agreement officer, AOR, and grantee discuss roles and responsibilities of key personnel, as well as possible corrective actions for deviations from approved personnel designations or functions (including potential disallowance of costs) during postaward conferences. In a follow-up discussion, USAID/South Sudan agreed to communicate this requirement by July 31, 2012. As a result, a management decision has been reached on Recommendation 11.

**Recommendation 12.** USAID/South Sudan agreed to designate a branding and marking subject matter expert to implement a plan to educate implementing partners on devising effective branding strategies. USAID/South Sudan plans to hire two development outreach and communications specialists to undertake this function, one personal services contractor, and one Foreign Service National. The mission plans to submit the request for the new personal services contractor position to Washington for approval by June 1, 2012, and complete the hiring process for the new Foreign Service National position by January 31, 2013. In the interim, USAID/South Sudan officials said they would ask USAID/Washington and USAID/Kenya for help in training staff and partners on branding and marking requirements by January 31, 2013. A management decision has been reached on Recommendation 12.

**Recommendation 13.** USAID/South Sudan agreed to implement procedures to monitor the implementation and effectiveness of approved branding strategies and marking plans during site visits, including alternative monitoring procedures if security and/or logistical constraints preclude actual visits. USAID/South Sudan plans to complete these actions by January 31, 2013. As a result, a management decision has been reached on Recommendation 13.

**Recommendation 14.** USAID/South Sudan agreed to develop a mission order regarding its policy on traditional birth attendant training and to disseminate the policy to staff and implementing partners, as appropriate. USAID/South Sudan plans to develop the mission order by June 1, 2012, and disseminate it electronically to implementing partners following mission approval. A management decision has been reached on Recommendation 14.

# SCOPE AND METHODOLOGY

## Scope

RIG/Pretoria conducted this performance audit in accordance with generally accepted government auditing standards, except for a limitation on the scope of the audit. This limitation was that auditors could not visit any activity sites in Sudan (including the Three Areas) and some activity sites in South Sudan or review documentation kept there because of failed attempts to obtain travel permits from the Government of Sudan and security restrictions in different regions of the country, particularly in the Upper Nile State. This limitation was significant for MC-BRIDGE especially, as auditors were able to visit only one activity site in Malakal and could not review the majority of MC-BRIDGE documentation, which was in Khartoum. To reduce this limitation, Mercy Corps sent two large suitcases of MC-BRIDGE documentation to Juba. Government auditing 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. Despite this limitation, we believe the evidence obtained provides that reasonable basis.

Our conclusions are based on the items we tested and on other sources of information available to us during the audit—namely, interviews with current and former staff from USAID/Sudan and USAID/South Sudan, Mercy Corps and its subpartners, and Upper Nile State government officials; field visits to observe Mercy Corps-supported activities and hold informal discussions with beneficiaries; and program documentation such as the mission's annual reports, site visit reports, and program correspondence.

The objectives of the audit were to determine whether USAID/Sudan's LINCS and MC-BRIDGE programs were achieving their main goals. We conducted audit fieldwork from August 22 to September 9, 2011, at USAID/South Sudan and Mercy Corps' main office in Juba; select Mercy Corps field offices and activity sites in Malakal for MC-BRIDGE, and in Malualkon, Aweil, Yei, and Lainya for LINCS; and selected subpartner and Upper Nile State Ministry offices. The audit covered the period from the programs' inceptions—September 2005 for LINCS and January 2009 for MC-BRIDGE—to the end of the audit fieldwork on September 9, 2011.

USAID/South Sudan reported total obligations and expenditures for LINCS and MC-BRIDGE of $68.7 million and $65.6 million, respectively, from the programs' commencement through September 30, 2011.

In planning and performing the audit, we assessed USAID/Sudan and USAID/South Sudan's management controls related to management review, proper execution of transactions and events, and review of performance measures and indicators. Specifically, we examined and evaluated documentation prepared by the missions, Mercy Corps, and subpartners, including the following:

- Cooperative agreements and subawards
- Quarterly and annual progress reports from Mercy Corps
- Target and actual performance results

- Mercy Corps' support for deliverables and reported results
- Annual work plans
- Site visit reports from mission staff and Mercy Corps
- Data quality assessments
- Indirect cost-rate calculations and time sheets
- Planning documentation, including performance management plans and branding and marking plans, for both LINCS and MC-BRIDGE
- USAID/Sudan's Federal Managers' Financial Integrity Act certifications from FY 2010 and 2011
- USAID/South Sudan's Federal Managers' Financial Integrity Act certification from FY 2011

We interviewed key current and former personnel from USAID/Sudan, USAID/South Sudan, Mercy Corps, and subpartners. We also interviewed Upper Nile State ministers, directors general, and their staff to discuss MC-BRIDGE, and CSOs to discuss LINCS. We also reviewed the LINCS mid-term evaluation, dated October 22, 2010, prepared by Management Sciences International.

## Methodology

To become familiar with goals, objectives, key deliverables, and achievements of LINCS and MC-BRIDGE, we reviewed the cooperative agreements, progress reports, and supplementary documents of Mercy Corps, which discussed key deliverables and reported results. To determine whether the LINCS and MC-BRIDGE programs were achieving their main goals, the audit team reviewed key deliverables in progress reports, as well as performance targets and reported results. We corroborated this evidence with interviews and site visits. Access to activity sites was the primary factor in site selection—considering insecurity, visa restrictions, impassable road conditions, and time and resource constraints. Because of the judgmental nature of the selection process, the results of these tests cannot be projected to the entire population.

For LINCS, auditors visited the resource center and community radio station in Malualkon (Northern Bahr el Ghazal State) and interviewed representatives of the advisory board and four CSOs in Malualkon and Aweil. We also interviewed a local county commissioner in Northern Bahr el Ghazal. In Central Equatoria State, the auditors visited a facility in Yei that was similar in function to a resource center although it was not included in the official list of deliverables. Auditors also interviewed the associated advisory board and four CSOs in Yei. We visited the Lainya resource center and interviewed the associated advisory board and three CSOs. Local county commissioners in Yei and Lainya were interviewed as well. Finally, the audit team visited the Juba civic engagement center and interviewed the advisory board and two CSOs.

For MC-BRIDGE, the audit team was permitted to travel to Malakal in Upper Nile State only. While there, we interviewed nine Upper Nile government officials and observed a public financial management training session. The audit team spoke with training participants as well as with two officials from local planning units in Melut and Mabaan.

To verify reported results and confirm data quality for MC-BRIDGE, we reviewed supporting documentation for selected indicators at Mercy Corps' office in Juba. The auditor's data quality testing covered FY 2010, the last full year for which reported results were available, and available results from the first three quarters of FY 2011. To establish the program's overall achievement for MC-BRIDGE, which had not been done prior to the audit, we compiled results from Mercy Corps for FY 2009, 2010, and the first three quarters of 2011. Nearly all of the activities had concluded by the fourth quarter of FY 2011, so fourth-quarter results would not significantly affect the achievement. Testing on achievement of performance indicators covered all performance data that were available and supported by source documentation from FY 2009 to 2011.

To establish criteria for the audit, we reviewed applicable laws, regulations, and USAID policies and procedures pertaining to USAID/Sudan and USAID/South Sudan's development strategy—including certification of management controls—which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982 to check whether the assessment cited any relevant weaknesses.[13] We also reviewed USAID's ADS Chapters 200, "Introduction to Programming Policy"; 202, "Achieving"; 203, "Assessing and Learning"; 312, "Eligibility of Commodities"; and 320, "Branding and Marking"; Acquisition & Assistance Policy Directive 04–14, "Certification Regarding Terrorist Financing Implementing Executive Order 13224 (Revision 2)"; and supplemental ADS guidance.

Given the nature of the audit objectives, no materiality threshold was established.

[13] Public Law 97–255, as codified in 31 U.S.C. 120105, 1113, and 3512.

# MANAGEMENT COMMENTS

USAID | SOUTH SUDAN
FROM THE AMERICAN PEOPLE

**MEMORANDUM**

Date: April 13, 2012

To: Christine M. Byrne, Regional Inspector General/Pretoria

From: Peter R. Natiello, Acting USAID/South Sudan Mission Director /s/

Subject: Management Comments, Audit of USAID/South Sudan's Programs Implemented by Mercy Corps (Report Number 4-668-12-00X-P)

Reference: Christine M. Byrne's memorandum dated February 14, 2012
Draft Audit Report Number 4-668-12-00X-P, dated February 14, 2012

In response to the referenced draft report, please find below management comments on the fourteen recommendations included therein. USAID/South Sudan would like to extend thanks to the audit team for the professionalism and thoroughness displayed in the execution of this audit, and appreciates the substance of these recommendations. We have already undertaken significant efforts, as USAID's newest mission, to optimize business processes and procedures, reviewing extant systems, and building actionable strategies to enhance mission routines and match resources to programmatic and management needs.

**Recommendation No 1: In coordination with USAID/Sudan, develop and implement a plan to improve management of projects, programs, or activities that span both Sudan and South Sudan, with particular attention that involve multiple technical offices**

**Management Comments:** Since the independence of South Sudan on July 9th, 2011, USAID/South Sudan has endeavored to reduce its reliance on USAID/Sudan's personnel and systems as they transition to two separate missions. This encompasses the division of all functions, including program oversight, budgeting, acquisition and assistance (A&A), and executive functions. Additionally, legal and A&A once provided out of Khartoum are now physically located in the USAID/South Sudan Mission. Because Sudan and South Sudan are now two separate countries, programmatic activities are also being divided to become two separate country programs.


| Courier Address: | Pouch Address: | Tel: +1 202 216 6279 extension 216 |
|---|---|---|
| U.S. Embassy | 4420 Juba Place | Website: www.usaid.gov |
| Juba, South Sudan | Washington DC 20521 | |

The division of the two Missions has been complex and necessitated a phased process which has taken some time. Programmatically, only one activity, the South Sudan Transition and Conflict Mitigation Program (SSTCM), retains an aspect of joint management. Currently, program management units are managed separately, but the contract itself has not been formally segregated. Although this contract is scheduled to expire by its terms in 2013, the Mission has initiated contract action to separately manage and fund this program. Furthermore, due to difficulties in joint management, such as those described in this report, USAID/Sudan and South Sudan have initiated procurement of two new awards to take the place of the SSTCM. Accordingly, two separate solicitations have been released and it is expected that new contracts will be in place by the end of this fiscal year. In the future, it is not envisioned that joint north-south programs will be undertaken.

Therefore, Mission requests concurrence that Management Decision has been reached.

**Recommendation No 2: Develop and implement procedures to help ensure the timely submission, review, and approval of recipients' annual work plans.**

**Recommendation No 7: Develop and implement procedures for timely review and approval of recipients' submissions for contracting officer approval, waivers, and environmental documentation.**

**Recommendation No 11: Develop and implement a plan for future agreements to require USAID approval of employees who perform duties described in key personnel position descriptions.**

**Management Comments to Recommendations Nos. 2, 7 and 11:** Mission management concurs with the recommendations. USAID/South Sudan has already undertaken significant efforts to improve procedures for the review and approval of A&A requirements, including work plans, waivers and environmental documentation. Adding additional certifications to existing required documentation as part of the Mission Annual Portfolio Review process will also ensure that these items are monitored. In the past six months, USAID/South Sudan has expanded its staffing and now has both a Legal Advisor and a Supervisory Contracting/Agreement Officer located in the Mission. Ad hoc A&A and legal support have also been provided by both USAID/Washington and USAID/Kenya. The Mission will continue to receive support from USAID/Washington and USAID/Kenya to help overcome the current space constraints that continue to limit the number of staff in South Sudan. Additionally, the Mission has developed a staffing plan to further increase the contracting staff. In conjunction with the increase in contracting and legal staffing, the Mission devised a staffing plan to increase the number of staff to manage programs and provide monitoring, training and oversight of AORs. The first five NSDD-38s have been submitted and approved by the Ambassador for submission through the formal NSDD-38 process. USAID/South Sudan will submit the remaining additional NSDD-38s to the Ambassador in line with the revised staffing plan by January 31, 2013.

With respect to environmental concerns, USAID/South Sudan's Mission Environmental Officer

(MEO) is based in Washington and covers both Sudan and South Sudan. A Foreign Service National (FSN) officer has attended formal environmental compliance training and is being trained as the Mission's assistant MEO with the objective of transferring day to day oversight and compliance duties to him. In addition, a second FSN staff member attended environmental compliance training this year in order to be prepared to serve as the Mission's assistant MEO as the current assistant will transition to serving as the full MEO. In order to further supplement staff for environmental compliance and as part of broader project monitoring, USAID/South Sudan will also acquire on-demand environmental compliance, management, and sound design support through the Global Environmental Management Support (GEMS) mechanism, managed by USAID/AFR/SD. In addition to training in-country staff and requesting support under GEMS, both of which will help overcome the current space constraints that continue to limit the number of staff in South Sudan, the Mission will continue to receive support from Washington and request additional environmental support from the Regional Environmental Office based in Nairobi, Kenya.

In addition to staffing, in the past month and at the Mission's request, the MEO provided the Mission with a comprehensive "Environmental Compliance Tracking Matrix" which delineates South Sudan and Sudan activities and allows the Mission to more accurately gauge environmental compliance needs and requirements. This matrix will help the new FSN MEO and assistant MEO to accurately monitor environmental compliance concerns and respond to them in a timely fashion. Additionally, the Mission has developed and disseminated a pre-obligation check-list to technical offices which is required to be completed prior to further obligation of funding of contract and grant instruments, and which requires clearance by the Technical, Program and Contracts offices. Compliance with environmental documentation and waivers has been made a component of this checklist. Additionally, the Mission will include AOR affirmation of current work plans in the documentation required for Annual Portfolio Reviews commencing with the next mission review to be held prior to December 31, 2012. With respect to compliance with key personnel approvals, for all future awards the Mission will require post-award conferences to include attendance of the Agreement Officer, AOR and recipients. As part of the post-award conference, roles and responsibilities of key personnel will be reviewed with recipients and AORs, as well as possible corrective actions for deviations from approved key personnel designations or functions, including potential disallowance of costs.

Therefore, Mission requests concurrence that Management Decision has been reached.

**Recommendation No 3: Determine the allowability of $1,125,000 in ineligible questioned costs spent on substandard construction of the Mabaan Country vocational training center without prior agreement officer approval and recover from Mercy Corps any amounts determined to be unallowable.**

**Recommendation No 4: Determine the allowability of $112,404 in ineligible questioned costs spent on restricted good without prior USAID approval and recover from Mercy Corps any amounts determined to be unallowable.**

**Recommendation No 8: Determine the allowability of $201,604 in unsupported questioned**

**costs (pertaining to the employment costs of a former Mercy Corps country director) and recover from Mercy Corps any amount determined to be unallowable.**

**<u>Recommendation No 9:</u> Determine the allowability of $137,411 in ineligible questioned costs arising from inconsistent treatment of capital expenditures in the indirect cost rate calculations and recover from Mercy Corps any amount determined to be unallowable.**

**<u>Recommendation No 10:</u> Take steps to require that Mercy Corps compensates USAID for any office compounds funded by the LINCS program that it intends to retain title to, in accordance with 22 Code of Federal Regulations (CFR) 226.32.**

**<u>Management Comments to Recommendations Nos. 3, 4, 8, 9 and 10:</u>** Mission management concurs with the recommendations. The Agreement Officer will review and make a determination of associated costs under recommendation number 10 in conjunction with and within the time limitations for determining the allowability of costs for recommendations numbers 3, 4, 8 and 9.

**<u>Recommendation No 5</u>: Develop and implement a plan to ensure that all water points constructed or refurbished for human consumption under the Mercy Corps BRIDGE program and resolve any issues identified.**

**<u>Management Comments:</u>** Mission management concurs with the recommendation. USAID/South Sudan will contact Mercy Corps to request that Mercy Corps collect samples from the 16 boreholes and submit the samples for a full analysis, in line with the guidelines of the World Health Organization and host country water quality standards and monitoring requirements. For those boreholes with test results that meet the testing requirements and are fit for human consumption, no further action is required. For those sites that do not meet testing requirements and cannot feasibly be made potable, the borehole will be capped. Due to the difficulty of travel to these locations because of the current insecurity and upcoming rainy season, USAID will target completion of these actions by January 31, 2013. USAID/South Sudan will also implement existing USAID procedures to ensure IEEs and ERF/ERRs developed in the future include the Water Quality Assurance Plans (WQAP) template when indicated by planned activities.

Therefore, Mission requests concurrence that Management Decision has been reached.

**<u>Recommendation No 6</u>: Develop and implement procedures to ensure that water points constructed or refurbished in South Sudan with USAID funds are tested as required by Agency regulations.**

**<u>Management Comments:</u>** Mission management concurs with the recommendation. USAID/South Sudan will implement existing USAID procedures to ensure that all USAID/South Sudan water points that are constructed or refurbished in the future comply with existing regulations, as referenced at: Environmental Guidelines for Small Scale Activities in Africa

(EGSSAA), Ch 16, Water Supply and Sanitation http://www.encapafrica.org/sectors/watsan.htm. In line with USG WASH framework and GOSS water policy, USAID/South Sudan will comply with all water quality compliance guidelines to be followed in all USAID funded Water Sanitation and Hygiene Projects. These guidelines will be shared with AORs, implementing partners, GOSS' Ministry of Water Resources and Irrigation (MWRI) and other technical experts within USAID by January 31, 2013.

As was recognized within the draft audit report, any WASH activities should conform to existing USAID regulations that ensure that project implementation does not proceed until USAID approves the recipient's environmental review forms. Further, as per 22 CFR 216, all projects involving potable water supplies, including construction of new sources and rehabilitation of old ones, should include testing for arsenic in addition to the usual testing for coliform bacteria and nitrates. While these actions are already included in USAID regulations, they will be emphasized to implementing partners in South Sudan, and monitored through regular site visits.

**Recommendation No 12: Designate a branding and marking subject matter expert; and develop and implement a plan to educate implementing partners on devising effective branding strategies.**

**Recommendation No 13: Develop and implement procedures for monitoring the implementation and effectiveness of approved branding strategies and marking plans during site visits, including alternate monitoring procedures if security and/or logistical constraints preclude actual visits.**

**Management Comments to recommendations 12 and 13:** Mission management concurs with the recommendation. USAID/South Sudan, as with all other USAID Missions, is expected to have an experienced Development Outreach and Communications Specialist (DOC) to handle branding and marking matters, including education to implementing partners, approval of branding and marking plans, and monitoring of branding and marking implementation. Due to limited space and a lack of NSDD-38 approvals for staffing, there have not been dedicated personnel to handle this function in the Mission. In the interim, USAID/South Sudan hired a Communications Specialist through the current Mission Support Contract and has received periodic support from USAID/Washington.

Moving forward, USAID/South Sudan plans to hire two individuals to undertake this function, a DOC through a Personal Services Contract (US/PSC), and a new Foreign Service National (FSN) DOC. The NSDD-38 for the USPSC/DOC has been submitted to and approved by the Ambassador, and will be submitted by June 1, 2012 to Washington, D. C. for further approval. The applications for the FSN/DOC have been solicited and are undergoing review for hiring by January 31, 2013, in order to accommodate required employment access clearances. Nevertheless, the FSN DOC will need on-the-job and other training before he/she becomes functional to fully perform his/her assigned duties. In the interim, USAID/South Sudan will request additional support from USAID/Washington and USAID/Kenya, including sending someone in to train staff and partners on branding and marking by January 31, 2013, in order to fill this critical gap. In addition, USAID/South Sudan will develop a procedure for site visits to include spot checking compliance with branding and marking procedures by January 31, 2013.

**<u>Recommendation No 14:</u> Develop a mission order on training traditional birth attendants and disseminate the policy to staff and implementing partners, as appropriate.**

**<u>Management Comments:</u>** Mission management concurs with the recommendation. The Mission will develop a mission order on training traditional birth attendants (TBAs) by June 1, 2012. This mission order will be disseminated to implementing partners electronically after it is approved by the South Sudan mission. In addition, the contents of the mission order will be shared in regular management meetings between USAID and implementing partners who support maternal and child health activities.

While in the past the Ministry of Health has supported the training of TBAs, the current policy of the Ministry of Health does not subscribe to utilizing TBAs to support deliveries, regardless of their level of training. USAID's programs seek to comply with the MOH policy. In response to a recommendation made during an audit of USAID/Sudan's Maternal and Child Health Activities, conducted in July 2011 (Report Number 4-650-11-010-P, July 28, 2011), USAID/South Sudan eliminated language in its task order with Management Sciences for Health so that the task order no longer had the phrase *"assess the [trained traditional birth attendant] population and select among them a cadre that can be upgraded."* A USAID/South Sudan Mission Order will emphasize the need to follow MOH policy, and to ensure that programming reflects best practices in skilled attendants at birth.

However, as South Sudan has many more TBAs than midwives or other skilled health professionals, USAID will continue training this "cadre" of health workers to do community outreach to mobilize women to visit facilities for antenatal care (ANC), safe delivery and reproductive health services. USAID believes this proactive health promotion contributes to the rising number of ANC and family planning (FP) visits.

Please acknowledge Mission's Management Decision.

# Consortium Partners

| Partner | Award Type | Amount Expended as of Sept. 30, 2011* ($) | Geographic Coverage | Sectoral Expertise | Notes |
|---|---|---|---|---|---|
| **Mercy Corps** | Cooperative agreement with USAID | 28,066,000 | Upper Nile<br>Abyei | WASH†<br>Education<br>Livelihoods | Expelled in March 2009; re-registered as MC Scotland. |
| *** Expenditures per Mercy Corps' Records as of September 30, 2011** | | | | | |
| **MC Scotland** | Subcontract | 3,695,054 | Blue Nile<br>Southern Kordofan | Livelihoods | Assumed responsibility for MC-BRIDGE activities in Southern Kordofan and Blue Nile States in June 2009. |
| **GOAL North** | Subgrant | 636,012 | Abyei<br>Blue Nile | Health<br>WASH† | Initially, GOAL North covered Abyei and GOAL South covered Blue Nile. They swapped geographic coverage on April 1, 2011. |
| **GOAL South** | Subgrant | 1,625,390 | Abyei<br>Blue Nile | Health<br>WASH† | |
| **Save the Children Sweden** | Subgrant | 2,094,000 | Abyei<br>Blue Nile<br>Southern Kordofan | Health<br>WASH†<br>Education<br>Livelihoods | Save the Children Federation was expelled from Sudan in March 2009 and reentered as Save the Children Sweden. |
| **World Vision Inc.** | Subgrant | 1,874,866 | Upper Nile | WASH† | |
| **International Medical Corps** | Subgrant | 1,648,294 | Upper Nile | Health<br>WASH† | |
| **Norwegian People's Aid** | Subgrant | 2,211,825 | Upper Nile | Livelihoods | |
| **Stromme Foundation** | Subgrant | 155,686 | Upper Nile | Education | Left the consortium in March 2010. |
| **Tetra Tech ARD** | Subcontract | 1,399,555 | Abyei<br>Blue Nile<br>Southern Kordofan<br>Upper Nile | Governance | Late to join the consortium as the technical expert on governance. |

† WASH stands for water, sanitation, and hygiene.

# Lainya Civil Society Resource Center Computer Activity Log

| Name | Tags | Location |
|---|---|---|
| Gmail - greetings | | https://mail.google.com/mail/h/hyi8q4eesgvj/?v=c&s=s&smi=12... |
| Gmail - greetings | | https://mail.google.com/mail/h/1a80ky8ccvd85/?v=c&s=s&th=1... |
| Gmail - Sent Mail | | https://mail.google.com/mail/h/19s25wi62ba84/?s=s |
| /mail/h/1orrbwy7muqit/?v=b&fv=b&cpt=c&at=AF6bupN... | | https://mail.google.com/mail/h/1orrbwy7muqit/?v=b&fv=b&cpt... |
| Gmail - Inbox | | https://mail.google.com/mail/h/1orrbwy7muqit/ |
| Gmail - Compose Mail | | https://mail.google.com/mail/h/p874njmxszm9/?v=b&pv=tl&cs=b |
| safepop.cgi | | http://media.fastclick.net/w/safepop.cgi?cid=299984&mid=560... |
| Mobile Tricks | | http://www.mozook.com/mobiletricks.aspx?ref=p125 |
| Romantic Messages | | http://www.romanticlovemessages.com/cat/romantic1.htm |
| Romantic Love Messages \| Quotes, Sayings, and more... | | http://www.romanticlovemessages.com/ |
| /mail/h/1crevdtdwr8mb/?v=b&fv=b&cpt=c&at=AF6bupN... | | https://mail.google.com/mail/h/1crevdtdwr8mb/?v=b&fv=b&cpt... |
| Gmail - Inbox | | https://mail.google.com/mail/h/1crevdtdwr8mb/ |
| Gmail - Compose Mail | | https://mail.google.com/mail/h/8u5n59uhobkn/?v=b&pv=tl&cs=b |
| Sweet love messages | | http://www.love-messages.info/sweet-love-messages |
| aclk | | http://googleads.g.doubleclick.net/aclk?sa=L&ai=Bb8-KQNzLTY-... |
| Videos | | http://www.worldslastchance.com/wlc-videos/english/latest.htm... |
| Love text messages - page 2 | | http://www.love-messages.info/love-text-messages-2 |
| Love messages | | http://www.love-messages.info/ |
| LOVE MASSAGES - Google Search | | http://www.google.co.ke/search?client=firefox-a&rls=org.mozill... |
| Gmail - Inbox | | https://mail.google.com/mail/h/1bjf6s30pi1vw/? |
| Gmail - Rommanah Mutunga added a friend that you sugg... | | https://mail.google.com/mail/h/1br3hlp682yz5/?v=c&th=12fe42... |
| Gmail - Inbox | | https://mail.google.com/mail/h/ga3bzvd3qcqv/?f=1 |
| /mail/?auth=DQAAAHkAAADNfuYP1k_IJ97mklIysVtOJxzz... | | https://mail.google.com/mail/?auth=DQAAAHkAAADNfuYP1k_IJ... |
| /mail/?ui=html&zy=l&pli=1&auth=DQAAAHkAAADNfuYP1k... | | https://mail.google.com/mail/?ui=html&zy=l&pli=1&auth=DQAA... |
| Gmail: Email from Google | | https://www.google.com/accounts/ServiceLogin?service=mail&p... |
| Jale Lee (1) | | http://www.facebook.com/home.php#!/profile.php?id=1000015... |
| Alafi Boaza (1) | | http://www.facebook.com/home.php#!/profile.php?id=1000006... |
| Jendia Pamela (1) | | http://www.facebook.com/home.php#!/profile.php?id=1000017... |
| home.php | | http://www.facebook.com/home.php#!/l.php?u=http%3A%2F... |
| child & human sacrifice (1) | | http://www.facebook.com/home.php#!/media/set/?set=a.2022... |

**As shown on this Internet browser screenshot from the Lainya resource center computer lab, the activity observed during site visits rarely related to strengthening civil society as originally intended by the LINCS program. (Taken by RIG/Pretoria, September 2011)**

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