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**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/PAKISTAN'S  
EARTHQUAKE  
RECONSTRUCTION ACTIVITIES**

AUDIT REPORT NO. 5-391-09-001-P  
NOVEMBER 25, 2008

MANILA, PHILIPPINES



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

November 25, 2008

**MEMORANDUM**

**TO:** USAID/Pakistan Director, Anne H. Aarnes

**FROM:** Regional Inspector General/Manila, Catherine M. Trujillo /s/

**SUBJECT:** Audit of USAID/Pakistan's Earthquake Reconstruction Activities (Audit Report No. 5-391-09-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments in appendix II.

This report contains four recommendations to assist USAID/Pakistan to improve its oversight of its earthquake reconstruction activities. Based on the mission's response to the draft report, we consider that management decisions have been reached on all four recommendations. Determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective action.

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

# CONTENTS

<b>Summary of Results .....</b>	<b>1</b>
<b>Background .....</b>	<b>2</b>
Audit Objective .....	3
<b>Audit Findings .....</b>	<b>4</b>
Is USAID/Pakistan’s Reconstruction Activities achieving its intended results and what has been the impact?	
Construction Activities Experiencing Delays .....	5
Livelihood Activities Experiencing Delay .....	8
Contractor Performance Review Was Not Completed.....	10
Performance Management Plans Were Not Approved.....	11
Data Quality Assessment Needs to be Completed.....	12
<b>Evaluation of Management Comments .....</b>	<b>13</b>
<b>Appendix I – Scope and Methodology .....</b>	<b>14</b>
<b>Appendix II – Management Comments .....</b>	<b>16</b>
<b>Appendix III – Table A-1: Program Achievements as of April 30, 2008 .....</b>	<b>19</b>

# SUMMARY OF RESULTS

On October 8, 2005, residents of northern Pakistan were shaken by a 7.6 magnitude earthquake that would claim more than 74,000 lives, level 272,000 buildings (including 585 health care facilities and 15,000 educational buildings), and leave more than 3.5 million people homeless. The earthquake zone is located in a mountainous region that includes parts of Pakistan's Northwest Frontier Province and Azad Jammu and Kashmir Province. The Islamic Republic of Pakistan (Pakistan) established the Earthquake Reconstruction and Rehabilitation Authority to coordinate and oversee all reconstruction activities. To help Pakistan recover and to provide immediate access to earthquake-affected areas, on January 21, 2006, the U.S. Government (acting through USAID) and the Pakistan Government formalized U.S. Government support for Pakistan's earthquake reconstruction program with the signing of a \$200 million special objective grant agreement (see page 2).

The Regional Inspector General/Manila conducted the audit of USAID/Pakistan earthquake reconstruction activities to determine if they are achieving intended results, and what the impact has been. This audit focused on two activities under USAID/Pakistan's earthquake reconstruction program: (1) the construction of schools and health clinics implemented by Camp Dresser and McKee International Inc., and (2) the livelihoods activities implemented by Citizens Network for Foreign Affairs (see page 3).

USAID/Pakistan earthquake reconstruction activities that involved construction and livelihoods activities achieved most, but not all, of their intended results. USAID/Pakistan measured its progress under these two activities against targets established for 10 performance indicators. As of April 30, 2008, the mission had achieved its planned targets for seven of the indicators, made progress on two indicators, and did not make progress on one indicator because the mission suspended work on a hospital construction project while awaiting a commitment from the Pakistan Government to staff the facility upon completion. With regard to program impact, there have been mixed results since the program began in January 2006. For example, the livelihoods activities program has contributed to increasing rural incomes by 38.5 percent. However, the mission has not yet completed any of the school or health facility construction activities; therefore, it is too soon to assess the impact of these facilities on local communities (see page 4).

The audit identified five issues affecting the program: a delay in the construction of schools and health clinics (see page 5), delays in the implementation of livelihoods activities (see page 8), lack of a contractor performance review (see page 10), lack of approved performance management plans (see page 11), and lack of a data quality assessment to validate the accuracy of reported results (see page 12).

This report contains four recommendations to assist the mission in improving its implementation and monitoring of earthquake reconstruction activities (see pages 10-12). Based on the mission's written comments management decisions have been reached on all four recommendations. USAID/Pakistan's written comments are included in their entirety as appendix II to this report (see page 16).

# BACKGROUND

On October 8, 2005, residents of northern Pakistan were shaken by a 7.6 magnitude earthquake that would claim more than 74,000 lives, level 272,000 buildings (including 585 health care facilities and 15,000 educational buildings), and leave some 3.5 million people homeless. Other lifelines such as water supplies, power lines, and bridges were also disrupted. The earthquake zone is located in a mountainous region that includes parts of Pakistan's Northwest Frontier Province and Azad Jammu and Kashmir Province.

The Islamic Republic of Pakistan (Pakistan) established the Earthquake Reconstruction and Rehabilitation Authority to coordinate and oversee all reconstruction activities. To help Pakistan recover and to provide immediate access to earthquake-affected areas, on January 21, 2006, the U.S. Government (acting through USAID) and the Pakistan Government formalized U.S. Government support for Pakistan's earthquake reconstruction program with the signing of a \$200 million special objective grant agreement. The objectives of the grant agreement are to strengthen health and education systems and restore livelihoods opportunities in selected earthquake-affected areas.

As of May 2008, USAID/Pakistan had committed \$202 million to reconstruction activities, and had obligated \$80 million and disbursed \$43 million since the program's inception. Table 1 summarizes the commitments, obligations, and disbursements by activity of the mission's earthquake reconstruction program as of May 2008.

**Table 1. Commitments, Obligations, and Disbursements by Activity Through May 2008**

Activity	Description	Committed (\$ millions)	Obligated (\$ millions)	Disbursed (\$ millions)
Construction	Construction and furnishing of education and health care facilities by incorporating earthquake-resistant building standards	120	31	8
Education	Training approximately 10,000 elementary, middle, and high school teachers in interactive, activity-based learning and student-centered methodologies linked to content areas of math, science, and English	13	6	4
Health	Integration, improvement, and expansion of the network of health services for residents of the earthquake-affected areas	28	12	6
Livelihoods	Recovery and expansion of the economy of the earthquake-affected areas through activities aimed at households, industries, and markets	34	24	20
Program Support	Provision of mission support activities such as transportation	7	7	5
<b>Total</b>		<b>\$202</b>	<b>\$80</b>	<b>\$43</b>

This audit focused on two activities under USAID/Pakistan's earthquake reconstruction program: (1) the construction of schools and health clinics implemented by Camp Dresser and McKee International Inc. (CDM) and (2) the livelihoods activities implemented by Citizens Network for Foreign Affairs (CNFA).

In October 2006, the mission awarded CDM a 5-year, \$120 million contract to rebuild and furnish seismic-resistant schools and health care facilities and to build institutional capacity to help restore normalcy, economic recovery, and security in the earthquake-affected areas. As of May 31, 2008, USAID/Pakistan had obligated \$31 million and disbursed \$8 million for the construction activities.

In July 2006, the mission awarded CNFA a 3-year, \$28 million cooperative agreement to facilitate the transition from relief and reconstruction to broad-based economic growth and increased employment in the earthquake-affected regions through the establishment of livelihoods programs. As of May 31, 2008, USAID/Pakistan had obligated \$19 million and disbursed \$14 million for the livelihoods activities under the CNFA agreement.

## **AUDIT OBJECTIVE**

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2007 annual audit plan to answer the following question:

- Did USAID/Pakistan's earthquake reconstruction activities achieve planned results, and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

# AUDIT FINDINGS

USAID/Pakistan earthquake reconstruction that involved construction and livelihoods activities achieved most, but not all, of its intended results. USAID/Pakistan measured its progress under these two activities against targets established for 10 performance indicators. As of April 30, 2008, the mission had achieved its planned targets for seven of the indicators, made progress on two indicators, and did not make progress on one because the mission suspended work on a hospital construction project while awaiting a commitment from the Pakistan Government to staff the facility upon completion. A complete list of the 10 indicators for these two activities, along with actual results as of April 30, 2008, is included in appendix III.

With regard to program impact, there have been mixed results since the program began in January 2006. For example, the livelihoods activities have contributed to increasing rural incomes by 38.5 percent. However, the mission has not yet completed any of the school or health facility construction activities; therefore, it is too soon to assess the impact of these facilities on local communities.

The audit did recognize a number of successes attributed to the mission's reconstruction activities. For example, under the livelihoods activities, the mission established a dairy association to link milk producers in Bagh district to buyers. The dairy association currently has 1,169 members, a majority of whom are female. This success contributed directly to the indicator measuring the percentage change in rural income of a target population, as well as the indicator of the number of rural households benefiting directly from U.S. Government interventions. Furthermore, the work targeted at developing agricultural and tourism value chains has resulted in support of 1,778 new and existing enterprises that are employing more than 8,500 individuals.

As part of the construction implementation, the mission was successful in engaging local communities to participate in the construction of schools and basic health units. The mission's goals for local community involvement were to promote a sense of ownership in the buildings and to develop capacity so the community could ultimately share responsibility for the maintenance of the buildings.

The community was asked at the start of each construction project to participate in the construction process. In response, several communities provided free land for the construction of temporary tent schools while the permanent structures were being completed. Thereafter, the communities were responsible for maintaining the temporary school sites. Community participation was also instrumental in resolving construction issues. For example, in one instance the local community organization was able to provide a subcontractor with additional land to store construction materials.



Photograph of a temporary school site on land donated by the community in Bagh district. (Photo by Office of Inspector General, June 2008.)

Although the program experienced some success in a few activities, the audit identified five issues, discussed below, that have impacted the program.

## **Construction Activities Experiencing Delays**

Summary: According to Camp Dresser and McKee International Inc.'s (CDM) year 1 annual work plan, it was to have 33 buildings under design by October 2007 and 45 buildings under construction by the end of December 2007. However, because of delays resulting from lack of mission staffing, lack of suitable sites for construction, building design challenges, unanticipated work, nonperformance of a construction subcontractor, and material price escalations, only 30 buildings were under design by October 2007 and only 9 buildings were under construction by the end of December 2007. As a result, local communities do not have shelter available in the event of another disaster, and people who left their communities because of a lack of schools and health care facilities are being displaced longer than necessary.

According to CDM's year 1 annual work plan, it was to have 33 buildings (schools and health units) under design by October 2007 and 45 buildings under construction by the end of December 2007. However, because of delays, only 30 buildings were under design by October 2007 and only 9 buildings were under construction by the end of December 2007.

Construction was delayed for a number of reasons, including (1) lack of mission staff, (2) lack of suitable construction sites, (3) building design challenges, (4) unanticipated work, (5) nonperformance of a construction subcontractor, and (6) material price escalations.

Staffing posed a problem for the mission at the onset of the program. First of all, the mission had on staff one engineer and a city planner to monitor the construction activities and approve construction documentation. According to the mission, CDM

subcontracted the design for the schools and health units to three subcontractors. These three subcontractors worked simultaneously preparing concept and final construction designs so that CDM could prepare and submit the designs to the mission for release of construction task orders to commence work. However, the one staff engineer could not timely support the review requirements of simultaneous task order submissions from CDM, which included final designs and engineering cost estimates. The mission had only one contracting officer on staff with the authority to issue task orders under the CDM prime contract. His responsibilities also covered all other contracts within the mission. This excessive workload caused delays in approving and issuing task orders. To resolve this issue, the Reconstruction Office is hiring three additional engineers and the Contracting Office is hiring a dedicated contracting officer to work on reconstruction activities.

The lack of suitable construction sites hampered construction progress. For example, at the start of the program, the mission received a list of 27 proposed construction sites from the Pakistan Government Earthquake Reconstruction Rehabilitation Authority (ERRA). The mission then developed a set of criteria to determine if the proposed sites were acceptable. CDM took an average of 3 months to assess the acceptability of the initial sites. CDM had to reject 20 out of 27 building sites because the Pakistan Government did not own the land and therefore was in no position to make the land available to the mission. As a result, the mission had to obtain additional sites from ERRA and restart the process, which further delayed construction.

Building design challenges encountered during the design phase also caused delays. CDM was forced to remove one design subcontractor—MM Pakistan—from design work for performance problems, and design requirements received from ERRA required modification and approval. CDM issued a task order to MM Pakistan in January 2007 to provide a design concept for three schools, including a girls' high school. After the mission and CDM reviewed the initial design concepts, both had concerns over the design. The subcontractor was tasked with redesigning the building to address electrical and lighting issues; however, the subcontractor's redesign did not adequately address CDM's concerns, which delayed the final design phase for the school. Another subcontractor prepared the final design for the girls' high school, which CDM and the mission approved in August 2007.

CDM was delayed in constructing four high schools because the mission had to obtain approvals for deviations from ERRA design requirements. In preparing the design concepts for these high schools, the mission obtained ERRA requirements for the number and size of classrooms, science labs, and meeting halls. The first design concept was completed by mid-November 2007. However, the original design based on ERRA requirements created a high school so large that it was cost prohibitive. The mission and CDM modified the design to reduce the square footage, a design which ERRA ultimately approved. However, CDM was not authorized to proceed with the design concept and final design of the four schools until February 2008.



Photograph of a girls' school under construction in Bagh district. (Photo by Office of Inspector General, June 2008.)

Unanticipated work was another factor that delayed construction. CDM subcontracted two schools to Associates in Development in June 2007. During September 2007, Associates in Development had to undertake additional unplanned work to prepare the construction sites, which delayed the progress for the two schools.

This same subcontractor did not perform adequately, further delaying progress. CDM noted that the subcontractor had not put together a quality construction management team at the sites and the work at the sites displayed poor planning. As a result, CDM requested Associates in Development to prepare a recovery schedule.<sup>1</sup> Associates in Development also experienced problems with its own subcontractor, which it ultimately terminated. Construction is still behind schedule for both schools, but CDM is confident that Associates in Development will be able to complete the schools.

Material price escalation further delayed construction. Subcontractors refused to sign negotiated subcontracts because significant price increases occurred after negotiations were completed. The price of raw materials, particularly steel, has significantly increased since December 2007. Subcontractors informed CDM that they would be unable to fulfill their commitment under their existing fixed-price subcontracts for that reason. To resolve this issue, the mission decided to create a separate task order to purchase steel and other identified escalating commodities, in volume, at a set price. Subcontractors would be allowed to purchase steel under this task order. Although the task order is awaiting final contracting officer approval, the contracting officer approved an initial order to purchase steel.

Collectively, these issues contributed to the delays in the construction startup of the schools and basic health units. Although some issues, such as mission staffing, are being addressed, other issues beyond the mission's control, such as the suitability of land provided by ERRA, may continue to affect the progress of the program. As of the

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<sup>1</sup> A recovery schedule is required to document how the subcontractors will catch up on the construction schedule after falling behind.

completion of audit fieldwork, only two schools were behind schedule, and one basic health unit was ahead of schedule.

The delay in the construction of the schools and basic health units affects the communities in several ways. First, these buildings were intended to be safe havens in future earthquakes. If another earthquake occurs, the communities will not have safe havens available to use. Second, many people left the earthquake reconstruction zones because of a lack of medical services and schools. The longer it takes to complete these structures, the longer it will take for people to return to their communities.

Since the reasons for the delay have either been resolved or are beyond the mission's control, this audit is not making any recommendations.

## **Livelihoods Activities Experiencing Delays**

Summary: Contrary to the mission's agreement with Citizens Network for Foreign Affairs (CNFA) to deliver and complete most of the livelihoods activities within the first 12 months of the program and distribute microenterprise grants within the first 18 months, the implementer did not meet all of its delivery requirements. The program delays were attributed to the termination of a subagreement for lack of performance, the mission's delay in providing the first quarter fiscal year (FY) 2008 letter of credit advance, and lack of inventories within Pakistan to fulfill beneficiary grant purchases. As a result, deliveries of 551 large animal packages and 358 grants to beneficiaries were delayed.

USAID/Pakistan awarded a cooperative agreement to CNFA in July 2006 to implement livelihoods activities, such as expanding and restoring incomes from animal husbandry, and reestablishing and expanding income from agricultural crops. According to CNFA's July 2006 3-year plan, most of the livelihoods activities—such as distribution of livestock, seeds, and tools—were to be completed within the first 12 months of the program. CNFA was to complete the distribution of microenterprise grants within the first 18 months of the program.

CNFA has not met all of its delivery requirements. For example, although CNFA was able to distribute nearly 8,945 planned seed packages (100 percent) to recipients, it was able to deliver only 432 of 1,699 planned large livestock packages (25 percent) within the first year of the program.

The program delays are attributed to three primary causes: (1) CNFA's termination of a subagreement for lack of performance, (2) the mission's delay in providing the first quarter FY 2008 letter of credit advance, and (3) lack of inventories within Pakistan to fulfill beneficiary grant purchases.

On September 28, 2006, CNFA terminated its subagreement with American Refugee Committee (ARC) because ARC did not perform under the terms of the subagreement. ARC did not begin setting up operations in Bagh district, which should have included hiring local staff and identifying office space. To compound the matter, ARC did not provide an implementation plan as requested by CNFA. As a result, CNFA terminated

the subagreement with ARC and requested its other subgrantee to implement ARC's portion of the livelihoods activities in Bagh district, which delayed the start of these activities until January 2007.

The mission contributed to the delay by not providing CNFA with incremental funding at the start of FY 2008 in a timely manner. Despite CNFA's June 2007 request for incremental funding, the mission did not make the funds available until November 2007. The mission's delay was mainly attributed to mission staff not having a clear understanding of the technical and contracting roles and responsibilities for processing funding requests. For example, mission staff were not clear on who was responsible for preparing the funding documents, so this process was delayed. Further, the mission's temporary contracting personnel were not familiar with the routing procedures for letter of credit advances and as a result forwarded the request to the regional payment office in Manila, Philippines, instead of to USAID/Washington, which processes these requests. The mission had to wait for FY 2007 funds from USAID/Washington to meet CNFA's request, which further exacerbated the funding delay. USAID/Washington made funds available to the mission at the end of September 2007, 3 months after CNFA's initial request.



Photograph of poultry chicks purchased through a beneficiary grant in Bagh district. (Photo by Office of Inspector General, June 2008.)

Finally, CNFA commented that a lack of inventory for items requested under the beneficiary grants was delaying the delivery of these items. For example, several grantees requested tractors; however, in Pakistan the business practice is not to maintain an inventory of tractors but rather to build the tractor once the orders are paid. As a result, even if a grant is processed timely, there could be a delay in delivering the tractor to the recipient.

As a result of these multiple delays, the intended beneficiaries under the livelihoods activities were affected. For example, because CNFA had to terminate its subagreement, the goal of distributing 551 large animal packages along with feed and training in Bagh district by the end of the first year was not met. According to the

cognizant technical officer, the livestock distributions were not completed until the end of April 2008.

The funding delay affected CNFA's ability to disburse grant money, secure procurements, and commit to training. According to CNFA, 358 grants to beneficiaries were delayed—11 bakery grants, 41 farm mechanization grants, and 306 buffalo grants. Though these grants were approved between July and September 2007, the funding delay resulted in beneficiaries not receiving their benefits until January 2008. To address the processing of incremental funding requests that led to delays making funds available to the implementer, the audit makes the following recommendation.

*Recommendation No. 1: We recommend that USAID/Pakistan's contracting office identify and document critical contracting processes, and provide training to mission personnel responsible for these processes.*

## **Contractor Performance Review Was Not Completed**

Federal Acquisition Regulation 36.201 requires the mission to evaluate contractor performance and prepare a performance report for each construction contract of \$550,000 or more. These performance reports should be prepared at the time of final acceptance or at other times in accordance with Agency procedures. USAID Acquisition Regulation 742.15 requires the contracting officer to report on contractor performance at least annually. The mission has not completed an annual contractor performance evaluation of CDM as required. The mission should have completed at least one performance review by October 2007, 1 year after the signing of the contract.

According to the contracting officer, contractor performance reviews were not consistently performed on all contractors, including CDM, because of a lack of staff. He stated that priority was given to program implementation and processing of task orders and contracts.

Regular, comprehensive, and conscientious performance evaluations will provide the mission with information to make better acquisition decisions and will be a significant incentive to the contractors to provide USAID with superior products and services. Further, the U.S. Government Accountability Office has ruled that failure to properly document contractor performance information and make the information available for use in source selections for the same or similar items is a sufficient basis to sustain a protest of a contract award in a subsequent source selection.

*Recommendation No. 2: We recommend that USAID/Pakistan perform a contractor evaluation of Camp Dresser and Mckee International Inc., in accordance with Agency procedures.*

## **Performance Management Plans Were Not Approved**

The cognizant technical officer designation letter states that the officer is responsible for approving performance management plans in accordance with contract terms. Furthermore, the cooperative agreement with CNFA states that the mission is to approve the performance management plan. Finally, Mission Order 203.1 states that strategic-level performance management plans are to be supported by activity-level implementing partner performance management plans. Contractors and grantees are responsible for developing activity-level performance management plans. The cognizant technical officer should ensure that these documents are presented in a format that is compatible with USAID/Pakistan's performance measurement framework.

Although indicators and targets were developed and agreed-upon plans were in place between the mission and the award recipients (CDM and CNFA) during the first year of the program, the mission did not formally approve these plans. Furthermore, the mission had not approved the revised performance management plans for the second year.

The mission did not approve either implementer's plans because the cognizant technical officers believed that the approval of the plans was the responsibility of the mission's program office. The confusion was compounded by the fact that the mission's internal guidance does not specifically identify who is responsible for approval.

Performance management is the systematic process of monitoring the results of activities; collecting and analyzing performance information to track progress toward planned results; using performance information to influence program decision making and resource allocation; and communicating results achieved, or not attained, to advance organizational learning and tell the Agency's story. The performance management plan is a tool used by an operating unit to plan and manage the process of assessing and reporting progress toward achieving a strategic objective. Without a formally approved performance management plan between the mission and its implementing partners and contractors, there is an increased risk that implementing partners and contractors could stray from activities that support the strategic objectives.

*Recommendation No. 3: We recommend that USAID/Pakistan modify Mission Order 203.1 to specify that cognizant technical officers are responsible for approving implementing partner and contractor performance management plans.*

## **Data Quality Assessment Needs to be Completed**

Automated Directives System 203.3.5.2 requires that data reported to USAID/Washington for Government Performance and Results Act reporting purposes or for reporting externally on Agency performance must have had a data quality assessment at some time within the 3 years before submission. However, the mission reported results for the FY 2007 operating plan indicators without a completed data quality assessment.

Although the mission contracted with Management Systems International (MSI) to perform a comprehensive data quality assessment for all of the mission's strategic objectives, the mission considered this assessment incomplete, especially as it related to the reconstruction performance indicators. According to the mission, MSI did not directly address reported results under the earthquake reconstruction activities. Further, MSI's data quality assessment of reconstruction activities included incomplete data quality assessment sheets and contained comments such as "data reliability will be an issue" without any supporting explanations. Finally, MSI's data quality assessment reported that progress reports were not available for the earthquake reconstruction activities during the period of the review (July 22 through August 12, 2007), even though CDM and CNFA submitted progress reports starting in January 2007.

The cognizant technical officers stated that they did not perform data quality assessments because they assumed that their activities were to be covered by the mission-wide assessment conducted by MSI. By the time the mission realized that reconstruction activities were not adequately covered, it was too late to perform an additional assessment. The mission has identified this as a problem and intends to perform another data quality assessment covering earthquake reconstruction activities.

The purpose of a data quality assessment is to ensure that the operating unit and strategic objective team are aware of the strengths and weaknesses of the data as determined by applying the five data quality standards—validity, integrity, precision, reliability, and timeliness—and are aware of the extent to which data integrity can be trusted to influence management decisions. Without an adequate data quality assessment, management may be basing decisions on imprecise or unreliable information. This, in turn, could result in a misallocation of resources. Therefore, this audit makes the following recommendation.

*Recommendation No. 4: We recommend that USAID/Pakistan perform a data quality assessment for the mission's earthquake reconstruction activities by March 31, 2009.*

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with the findings and recommendations contained in the draft report. Furthermore, minor changes requested by the Mission were made to the report. The mission plans to implement all of the recommendations in the report.

For recommendation number one, the mission's Office of Acquisition and Assistance (OAA) along with the Controller's Office will design and implement procedures that will ensure that funding information is routed to the correct disbursing office. Along with the procedures, training will be provided to the staff and also to the technical offices to clarify roles and responsibilities. The training along with the new procedures is expected to be implemented by June 30, 2009.

In regards to recommendation number two, the mission will perform a contractor evaluation of Camp Dresser and Mckee International Inc. by March 31, 2009.

For recommendation number three, the mission will modify Mission Order 203.1 by March 31, 2009 to specify that cognizant technical officers are responsible for approving implementing partner and contractor performance management plans.

Finally for recommendation number four, the mission will perform a data quality assessment for its earthquake reconstruction activities by March 31, 2009. The mission commented that an extension was required because the security situation in Pakistan requires that it now use a local contractor and complete a statement of work instead of using Washington D.C. staff to perform the data quality assessment. We have changed the recommendation to reflect the revised completion date.

Based on the mission's comments we consider that management decisions have been reached on all of the recommendations. Determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective action.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Manila (RIG/Manila) conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The objective of this audit was to determine whether USAID/Pakistan's earthquake reconstruction activities achieved intended results, and what the impact has been.

This audit focused on two activities under USAID/Pakistan's earthquake reconstruction program: (1) the construction of schools and health clinics implemented by Camp Dresser and McKee International Inc. (CDM) and (2) the livelihoods activities implemented by Citizens Network for Foreign Affairs (CNFA). In October 2006, USAID/Pakistan awarded a \$120 million contract to CDM to implement the construction activities of the program. As of May 31, 2008, USAID/Pakistan had obligated \$31 million and disbursed \$8 million for the construction activities. Further, in July 2006, the mission awarded a cooperative agreement of \$28 million to CNFA for livelihoods activities. As of May 31, 2008, USAID/Pakistan had obligated \$19 million and disbursed \$14 million for the livelihoods activities under the CNFA agreement. Total costs obligated and disbursed under the program in its entirety as of May 2008 were \$80 million and \$43 million, respectively.

The audit was performed in the Islamic Republic of Pakistan (Pakistan) from June 4 through 25, 2008, and covered the program's activities implemented by CDM and CNFA from inception to April 2008. In Islamabad, RIG/Manila conducted fieldwork at USAID/Pakistan, CDM, and CNFA offices. We also visited selected program project sites in Northwest Frontier Province and Azad Jammu and Kashmir Province.

We reviewed and analyzed the activities supporting 10 performance indicators—5 indicators for construction activities and 5 for livelihoods activities—that USAID/Pakistan established to measure whether the program was achieving planned results. CDM and CNFA were required to report on these indicators in periodic progress reports.

As part of the audit, we assessed the significant internal controls used by USAID/Pakistan to monitor program activities. The assessment included controls related to whether the mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by CDM and CNFA, and (4) compared reported progress to planned progress and the mission's own evaluations of progress. We also reviewed the mission's Federal Managers' Financial Integrity Act report for fiscal year 2007, and prior audit reports, for any issues related to the audit objective.

## Methodology

To answer the audit objective, we interviewed officials from USAID/Pakistan, CDM, and CNFA. We also reviewed and analyzed relevant documents from the mission, the implementing partners, and the contractor. This documentation included performance management plans, the contract between the mission and CDM, and the cooperative agreement between the mission and CNFA. Furthermore, we reviewed contractor and grantee monitoring reports, annual work plans, and financial records.

To test the validity of the data used to answer the audit objective, including data reported by CDM and CNFA in periodic progress reports, we performed the following:

- Verified a judgmental sample of performance data against supporting records at CDM and CNFA
- Verified a judgmental sample of CNFA reported results to subgrantee documentation
- Reviewed the internal application and security controls over the performance monitoring system used by CDM and CNFA for recording and reporting results

For each selected performance indicator, we established the following materiality threshold criteria to measure progress made in the program:

- The planned result would be achieved if the target number was met.
- The planned result would be partly achieved if progress was made toward meeting the target number.
- The planned result would not be achieved if no progress was made toward meeting the target number.

# MANAGEMENT COMMENTS



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## MEMORANDUM

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Date: November 18, 2008

To: Catherine M. Trujillo  
RIG/Manila

From: Anne H. Aarnes /s/  
Mission Director

Subject: Management Comments  
Audit of USAID/Pakistan's Earthquake Reconstruction Activities (Audit Report No. 5-391-09-00X-P)

Reference: Catherine M. Trujillo's memo dated October 9, 2008

In response to the referenced memorandum on the above subject, please find below the management comments on the four recommendations:

**Recommendation No. 1: We recommend that USAID/Pakistan's contracting office identify and document critical contracting processes, and provide training to mission personnel responsible for these processes.**

**Management Comments:** The Mission agrees with this recommendation. In order to address the concerns, USAID Pakistan's Office of Acquisition and Assistance (OAA) along with the Controller's Office is in the process of designing and implementing steps and procedures that will ensure that funding information is routed to the correct disbursing office. Along with the procedures, training will be provided to the OAA staff and also to the technical offices to clarify roles and responsibilities. The training along with the new procedures is expected to be implemented by June 30, 2009.

**Recommendation No 2: We recommend that USAID/Pakistan perform a contractor evaluation of Camp Dresser and Mckee International Inc. in accordance with agency procedures.**

**Management Comments:** The Mission Management agrees with this recommendation. The Mission will perform a contractor evaluation of Camp Dresser and Mckee International Inc. It is expected that the evaluation will be completed by March 31, 2009.

Page 2, Report No. 5-391-09-00X-P  
November 18, 2008

**Recommendation No 3: We recommend that USAID/Pakistan modify Mission Order 203.1 to specify that cognizant technical officers are responsible for approving implementing partner and contractor performance management plans.**

**Management Comments:** The Mission Management agrees with this recommendation. The Mission will modify Mission Order 203.1 to specify that cognizant technical officers are responsible for approving implementing partner and contractor performance management plans. It is expected that the modification will be completed by March 31, 2009.

**Recommendation No 4: We recommend that USAID/Pakistan perform a data quality assessment for the mission's earthquake reconstruction activities by December 31, 2008.**

**Management Comments:** The Mission Management agrees with this recommendation. The Mission will perform a data quality assessment (DQA) for the Mission's earthquake reconstruction activities. It is expected that the assessment will be completed by March 31, 2009. RIG is requested to change the date of completion as December 31, 2008 is not feasible.

Originally, it was planned to use US-based consultants and colleagues from EGAT for the mid-program evaluations as well as the DQAs. This work was supposed to be done in the October-November timeframe. Given the security situation and constraints, USAID/Pakistan is postponing the mid-program evaluations until the second quarter of the FY. Therefore, the DQA is being rescheduled for a December-January timeframe. The justification for the delay is the security situation. The SOW for local consultants to undertake the DQAs for reconstruction is being finalized. It is expected that the assessment will be completed by March 31, 2009.

Mission requests that RIG consider changing the opinion in the first sentence of paragraph three of page 1 and throughout the body of the audit report where it states that, "USAID/Pakistan earthquake reconstruction that involved construction and livelihoods activities achieved some, but not all of its intended results." Of the 10 performance indicators selected, 7 achieved their intended results; 2 partially achieved their intended results; whereas, 1 did not achieve the planned result for the period based on the standard RIG used for measuring performance. Therefore, Mission believes that it mostly achieved its intended results.

In addition, the Mission requests deletion of, "did not make progress on one indicator" and the replacement of this phrase with "suspended progress on one indicator". The reconstruction team suspended design work on the Tehsil Hospital in Bagh District, pending further clarification from the Government of Pakistan (GOP) that the facility would be properly staffed and maintained. The suspension went into effect following a site visit to a new \$10 million Tehsil Hospital funded by the Kuwaiti Fund. Six months after construction, this Kuwaiti-funded facility was neither staffed adequately nor maintained under acceptable working standards. After subsequent USAID discussions

with the GOP district health officer and other government officials, USAID directed that work resume on the design of a smaller, more sustainable facility.

Table A-1: Program Achievements as of April 30, 2008

<b>Earthquake Reconstruction Activities</b>			
<b>Agreed Upon Performance Indicators</b>			
<b>Program Performance Indicators</b>	<b>FY 2008 Targets</b>	<b>Results through April 2008</b>	<b>Target Met</b>
<b>Livelihoods</b>			
Percent of disaster affected house-holds provided with basic inputs for survival, recovery or restoration of productive capacity.	5%	30.20%	Yes
Percent change in rural income of targeted population.	10%	40%	Yes
Number of rural households benefiting directly from U.S. Government Interventions.	24,000	26,232	Yes
Number of individuals who have received U.S. Government supported short term agricultural sector productivity training.	10,750	20,836	Yes
Number of jobs created from Improving Livelihoods & Enterprise Development (ILED) interventions.	6,750	87,247	Yes
<b>Construction</b>			
Percent of communities rating above minimum threshold on community involvement.	100%	100%	Yes
Percent of total constructed square footage handicapped accessible.	75%	98%	Yes
Number of Tehsil Hospital under construction.	1	0	No
Number of Schools buildings under construction.	26	12	Progress being made.
Number of Basic Health Units under construction.	17	15	Progress being made

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