



Office of Inspector General

June 28, 2010

MEMORANDUM

TO: USAID/Pakistan Director, Robert J. Wilson

FROM: Acting Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Review of USAID's Internally Displaced Persons Programs in Pakistan
(Review Report No. 5-391-10-001-S)

This memorandum transmits our final report on the subject review. In finalizing the report, we considered your comments on the draft review report and have included the comments in their entirety in appendix II.

Although not an audit, the review report contains four recommendations to assist the mission in improving various aspects of the program. On the basis of information provided by the mission in response to the draft report, we determined that final action has been taken on recommendations 2 and 4. In addition, management decisions have been reached on recommendations 1 and 3. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

Thank you for the cooperation and courtesy extended to the OIG team during this review.

CONTENTS

Summary of Results	1
Background	3
Review Objective	6
Review Findings.....	7
What is the status of USAID's internally displaced persons programs in Pakistan?	
USAID Could Improve Its Alternative Methods for Monitoring and Evaluation.....	13
USAID/Pakistan Has Little Assurance That Financial Assistance Reached Internally Displaced Persons	17
Evaluation of Management Comments	19
Appendix I—Scope and Methodology.....	20
Appendix II—Management Comments.....	21

SUMMARY OF RESULTS

Between August 2008 and September 2009, conflict between the Government of Pakistan and militant groups in the North-West Frontier Province (NWFP, recently renamed Khyber Pakhtunkhwa) and the Federally Administered Tribal Areas (FATA) displaced over 400,000 Pakistani households. While many displaced persons took shelter with host families, the remaining families took shelter in official Pakistani Government-run camps (page 3). As the internally displaced persons (IDP) crisis escalated in May 2009, USAID and other U.S. Government agencies responded quickly by providing humanitarian assistance to Pakistani IDPs (page 4). USAID provided humanitarian assistance for the crisis through (1) its Office of Foreign Disaster Assistance, (2) its Food for Peace program, (3) its Office of Transition Initiatives, and (4) USAID/Pakistan, its mission in Islamabad (page 4).

The Regional Inspector General/Manila conducted this review to determine the status of USAID's IDP programs. This review was conducted concurrently with an audit by the Department of State (DOS) Office of Inspector General (OIG) of the DOS IDP program in Pakistan (page 6).

From October 2008 through December 31, 2009, USAID obligated \$285.7 million for IDP programs in Pakistan's NWFP and FATA regions. Of the amount obligated, more than \$151.8 million was obligated for food aid in response to the emergency. Despite the deteriorating security situation in Pakistan, USAID responded immediately to provide rapid assistance through 21 nongovernmental organizations, 5 U.N. organizations, a contractor, and the Government of Pakistan. USAID's IDP programs consisted of support for the immediate needs of people who were displaced and for people returning to their areas of origin after the conflict in their home areas had diminished (page 7).

However, although USAID has carried out numerous IDP programs in Pakistan, monitoring and evaluation methods needed improvement. Specifically, USAID's "alternative monitoring" methods—used to monitor activities in dangerous and insecure areas, such as NWFP and FATA—needed to be strengthened (page 13). In addition, USAID had not implemented monitoring controls that were meant to provide reasonable assurance that \$44 million in cash transfer funds had actually reached 140,000 IDP families as intended (page 17).

This report contains four recommendations to address these issues and to help improve monitoring and evaluation of USAID's programs in Pakistan (pages 16 and 18). We recommend that USAID/Pakistan:

- Develop and award a procurement instrument to provide third-party monitoring and evaluation services to assist mission technical offices that implement IDP programs, other mission programs, and in-country Washington-based programs such as those carried out by the Offices of Foreign Disaster Assistance and Food for Peace.
- Require the Government of Pakistan to provide (1) quarterly expenditure reports for IDP disbursements and (2) a list of payments totaling \$44 million made to IDPs.

- Verify the use of funds from the quarterly expenditure reports and the list of IDPs. Also, confirm that the Government of Pakistan provided funds to 140,000 families as a result of this cash-transfer program.
- Conduct spot checks and evaluations on the effectiveness of the cash-transfer program.

On the basis of an evaluation of the mission's response to the draft report, the Office of Inspector General determined that final action has been taken on recommendations 2 and 4, and management decisions have been reached on recommendations 1 and 3. The mission's written comments on the draft report are included in their entirety, without attachments, as appendix II to this report (page 21).

BACKGROUND

Between August 2008 and September 2009, conflict between the Government of Pakistan (GOP) and militant groups in the North-West Frontier Province (NWFP, recently renamed Khyber Pakhtunkhwa) and the Federally Administered Tribal Areas (FATA) displaced over 400,000 households, according to the Pakistani Army's special support group.¹ The nature and patterns of displacement required a significant response by the GOP and the international community to provide immediate humanitarian assistance to internally displaced persons (IDPs) in the face of deteriorating security and a lack of access to basic services.

Figure 1. The NWFP and FATA of Pakistan



(Map courtesy of the FATA Development Authority.)

While many displaced persons took shelter with host families, other families took shelter in official camps set up by the GOP. IDPs registered with the GOP's National Database and Registration Authority (NADRA), then NADRA verified whether the displaced persons were valid beneficiaries for IDP assistance. Once the verification process was done, NADRA provided the verified lists to the Pakistani Army's special support group.

¹ The Pakistani Army established the special support group for overall coordination and to arrange registration, medical cover, camp management, and procurement/supply of relief to the internally displaced persons.

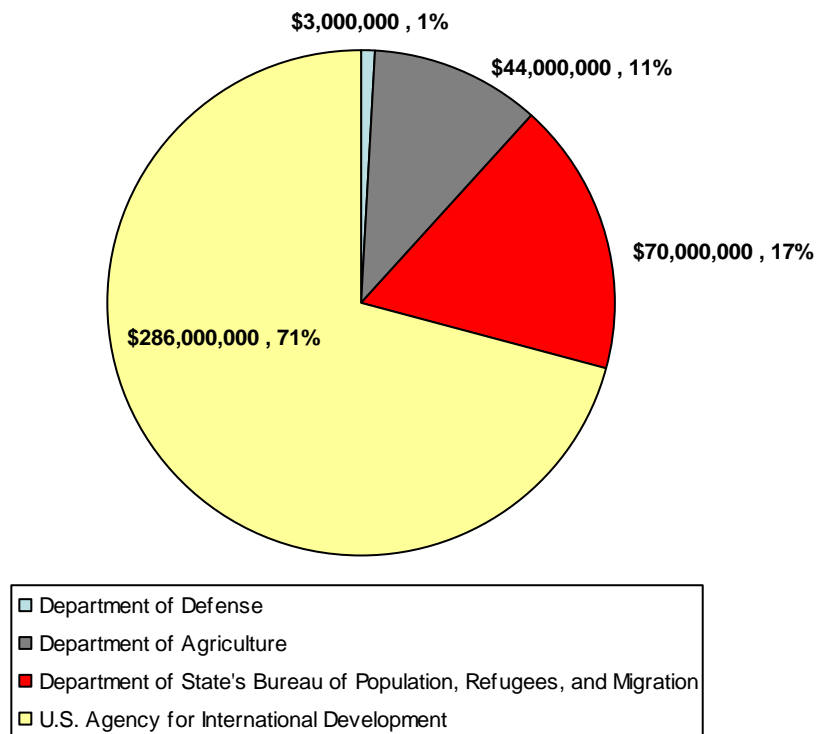
As of January 2010, 64 percent of displaced households had returned to their home areas, as conflict in those areas had subsided. Table 1 below summarizes the number of IDP households that were displaced and the number of households that have returned.

Table 1: Summary of Verified IDP Households Displaced and Returned in NWFP and FATA Regions of Pakistan as of January 4, 2010 (Unaudited)

Displaced and Returned Households	Number of Households	Percentage of Households
Number of displaced households verified	416,598	100
Number of households that have returned to areas of origin	267,240	64
Number of households not returned	149,358	36

As the IDP crisis escalated in May 2009, U.S. Government agencies responded quickly through USAID's Office of Foreign Disaster Assistance (OFDA)—the lead agency within the U.S. Government for providing assistance to Pakistani IDPs. From October 2008 through December 31, 2009, the U.S. Government as a whole provided approximately \$403 million in assistance to IDP populations, including support for agriculture and food security; economic recovery and market systems; health services; logistics and emergency relief supplies; and nutrition, shelter, safe drinking water, and sanitation activities. (See figure 2 below.)

**Figure 2. U.S. Government Humanitarian Assistance for IDP Programs
October 1, 2008–December 31, 2009**



As of December 31, 2009, the U.S. Departments of Defense, Agriculture, and State had provided a total of \$117 million in humanitarian assistance funding for Pakistan IDP

programs from October 1, 2008, through December 31, 2009. The Department of Defense provided \$3 million in humanitarian assistance that included halal meals,² water trailers, air-conditioned tents, and generators. The U.S. Department of Agriculture provided \$44 million to the U.N. World Food Programme for 56.8 metric tons of food. The Department of State provided \$70 million to the U.N. High Commissioner for Refugees and the International Committee of the Red Cross for camp registration, coordination and management, treatment for conflict injuries, protection, emergency shelter, and nonfood items such as kitchen kits.

As of December 31, 2009, USAID had obligated a total of \$285.7 million for IDP humanitarian assistance and had disbursed \$203.7 million. USAID provided direct assistance to displaced persons by providing safe drinking water, sanitation facilities, health care services, protection and shelter, emergency food, nonfood items (such as blankets, pillows, mattresses, cooking stoves, and towels), continuing education for children and adults, and infrastructure rehabilitation.

USAID's humanitarian assistance response was provided through (1) its Office of Foreign Disaster Assistance (OFDA), (2) its Food for Peace (FFP) office, (3) its Office of Transition Initiatives (OTI), and (4) programs managed by USAID/Pakistan, its mission located in Islamabad. The first three offices are part of USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), located in Washington, DC. The responsibilities of these three USAID offices and the mission in Islamabad are discussed below.

- 1. Office of Foreign Disaster Assistance.** OFDA has the responsibility to provide foreign disaster assistance and to coordinate the response of the U.S. Government to disasters abroad. The authority to provide and coordinate U.S. foreign disaster assistance originates with the Foreign Assistance Act of 1961,³ as amended. OFDA's mandate is to save lives, alleviate suffering, and reduce the economic impact of disasters. OFDA carries out these responsibilities in coordination with the government of the affected country, other donor governments, international organizations, U.N. relief agencies, and private voluntary and nongovernmental organizations.
- 2. Food for Peace.** FFP has the responsibility to administer the U.S. international food assistance program under Public Law (PL) 480 Titles II, III, and V of the Food for Peace Act.⁴ For Pakistan's IDP programs, FFP provided PL 480 Title II food assistance, which provides for a direct donation of U.S. agricultural commodities for emergency relief and development.
- 3. Office of Transition Initiatives.** OTI supports U.S. foreign policy objectives by helping local partners advance peace and democracy in priority countries in crisis. OTI provides fast, flexible, short-term assistance to meet the unique needs of each program. OTI's programs are short term—typically, 2 to 3 years in duration. OTI also works closely with missions and host governments to identify programs that

² Halal meals are foods that are allowed under Islamic dietary guidelines.

³ Public Law 87-195 (codified as amended in scattered sections of 22 U.S.C.)

⁴ The Agricultural Trade Development and Assistance Act of 1954, Public Law 83-480, is still often referred to by its former moniker "Public Law 480." It was renamed the Food for Peace Act in 2008.

complement other assistance efforts and to lay a foundation for longer-term development. OTI has had an ongoing program in Pakistan since 2007.

4. **USAID/Pakistan.** USAID/Pakistan, located in Islamabad, is part of USAID's Bureau for Asia. The mission carries out programs in the areas of infrastructure, humanitarian assistance, education and health services, and governance.

REVIEW OBJECTIVE

The Regional Inspector General/Manila conducted this review as part of its fiscal year 2010 annual plan to answer the following question:

- What is the status of USAID's internally displaced persons programs in Pakistan?

Further, we conducted this review concurrently with a DOS OIG audit of the DOS Bureau of Population, Refugees and Migration's IDP program in Pakistan. Together, USAID and DOS provided 88 percent of U.S. Government funding in response to Pakistan's IDP crisis from October 1, 2008 through December 31, 2009.

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

REVIEW FINDINGS

As of December 31, 2009, USAID had obligated \$285.7 million for internally displaced persons (IDP) programs in the Pakistan's North-West Frontier Province (NWFP) and Federally Administered Tribal Areas (FATA). Amounts obligated and disbursed for these programs are shown in table 2.

**Table 2. Status of USAID IDP Programs
October 1, 2008–December 31, 2009**

	Status of USAID IDP Programs	Active in CY 2010?	(\$ Millions)	
			Obligated	Disbursed
1	Office of Foreign Disaster Assistance (OFDA) emergency aid and food procurement ⁵	Yes	105.5	47.5
2	Food for Peace (FFP) PL 480 Title II food aid	Yes	95.3	75.3
3	Office of Transition Initiatives (OTI) IDP assistance	Yes	9.0	5.0
4	USAID/Pakistan miscellaneous programs	No	10.9	10.9
5	USAID/Pakistan grant to U.N. World Food Programme	Yes	21.0	21.0
6	USAID/Pakistan cash transfer to Government of Pakistan	No	44.0	44.0
	Total		285.7	203.7

Of \$285.7 million obligated, more than \$151.8 million⁶ (53 percent) was obligated for food aid for local and regional food procurement in Pakistan and for PL 480 Title II⁷ food assistance in response to the IDP emergency. Despite the deteriorating security situation in Pakistan, USAID responded immediately to provide rapid assistance through 21 nongovernmental organizations, 5 U.N. organizations, a contractor, and the Government of Pakistan (GOP). USAID's IDP activities consisted of support for the immediate needs of people who were displaced and for people returning to their areas of origin after the conflict had diminished. The following sections describe in detail the status of each of the six USAID programs for IDPs.

- 1. Office of Foreign Disaster Assistance.** OFDA provided funding of \$105.5 million for 53 grants and cooperative agreements to 21 implementing partners to help Pakistan's IDPs. These 21 implementing partners consisted of 16 nongovernmental organizations and 5 U.N. organizations (see table 3).

⁵ The amount disbursed for OFDA programs is defined as funding provided to USAID's partners through advance letter of credit payments as of January 2010. The disbursements may not reflect the actual amount of expenditures made by these partners as of that date.

⁶ Food assistance was provided by three USAID programs: OFDA obligated \$35.5 million, Food for Peace obligated \$95.3 million, and USAID/Pakistan obligated \$21 million.

⁷ See footnote 4.

Table 3. OFDA Awards to 21 Implementing Partners as of December 31, 2009

	Implementers	Obligations (\$ Millions)
1	Agency for Technical Cooperation and Development	2.5
2	American Refugee Committee	2.0
3	Concern	3.7
4	Catholic Relief Services	2.8
5	International Medical Corps	2.1
6	International Organization for Migration	8.9
7	International Rescue Committee	6.4
8	International Relief and Development	.7
9	Internews	.7
10	Merlin	1.1
11	Mercy Corps	3.5
12	Oxfam	4.9
13	Relief International	3.0
14	Save the Children	3.4
15	Samaritan's Purse	.5
16	U.N. Human Settlements Programme	1.4
17	U.N. Children's Fund	11.8
18	U.N. Office for the Coordination of Humanitarian Affairs	1.8
19	U.N. World Food Programme	37.2
20	U.N. World Health Organization	2.9
21	World Vision	4.2
	Total	105.5

In May 2009, OFDA deployed its Disaster Assistance Response Team (DART) to Pakistan to support GOP IDP relief efforts, providing specialists trained in a variety of disaster relief skills to assist the U.S. Embassy and the USAID mission with the management of the U.S. Government's response to the IDP crisis. The DART team managed the U.S. humanitarian response and coordinated with the humanitarian community. Also in May, OFDA activated a Washington-based response management team to support the DART. In July 2009, OFDA replaced the DART by establishing a field office at USAID/Pakistan to continue monitoring the situation and to respond to evolving humanitarian needs. OFDA provided immediate assistance to displaced people by providing safe drinking water, sanitation and hygiene facilities, health care services, protection and shelter, nonfood items, and infrastructure rehabilitation. In addition to providing assistance to those who had been displaced, OFDA also provided assistance to those people returning to their areas of origin after the conflict had subsided. This assistance included:

- Reestablishing and facilitating access to essential services in the areas of health, water and sanitation, and infrastructure (repairing roads, irrigation channels, electrical systems, and communications).
- Ensuring appropriate transitional shelter.
- Distributing seeds, tools, and other goods and services to help revive socioeconomic activities.
- Providing temporary employment for women and men (e.g., cash-for-work programs).

As part of the \$105.5 million obligated, OFDA contributed \$37.2 million to the U.N. World Food Programme, including funds for 66,000 metric tons of emergency food assistance purchased locally and regionally in Pakistan and distributed throughout the NWFP and FATA regions.



OFDA activities supported an implementing partner's health clinic at a camp in the Swabi District in the NWFP. (Photo taken by OFDA staff in June 2009.)

2. **Food for Peace.** FFP awarded a grant of \$95.3 million to the U.N. World Food Programme for PL 480 Title II food assistance in the NWFP and FATA regions. According to the grant agreement, the FFP was to contribute a total 106,950 metric tons of wheat flour, split yellow peas, and oil to meet the needs of up to 2.4 million IDPs in Pakistan during the period through December 2010.



A U.N. World Food Programme center distributed food aid supported by Food for Peace in Swabi District in the NWFP. (Photo taken by OFDA staff in January 2010.)

- 3. Office of Transition Initiatives.** OTI obligated \$9 million for IDP activities in the NWFP and FATA regions to support the immediate needs of people who were displaced and the people returning to their areas of origin after the conflict had diminished. As of January 2010, OTI had completed 114 of 185 planned IDP projects (62 percent) in Pakistan's NWFP and FATA regions, using two implementing partners. OTI continues supporting GOP efforts to reestablish a presence in conflict-affected areas. The 185 OTI projects consisted of:
- 170 small infrastructure and media projects, with estimated average costs of \$43,000 each. Projects included repairing water supply systems, electrical systems, and schools and expanding radio programming and coverage.
 - 9 projects that purchased 9,200 kits containing nonfood items, such as cooking pots and pans, and 9,320 sets of pillows, blankets, and mats for distribution to IDPs.
 - 5 projects that purchased 22 generators, 1,000 fans, 20 transformers, and 200 water coolers.
 - One project for seven four-wheel-drive vehicles rented to GOP officials so that they could travel to IDP camps and coordinate relief activities.



OTI provided nonfood-item kits that included coolers and pots and pans such as these inside a tent at a camp in Mardan District in the NWFP. (Photo taken by an OTI partner in July 2009.)

4. USAID/Pakistan Miscellaneous Programs. USAID/Pakistan implemented IDP activities with a total value of over \$10.9 million through four existing mission programs. USAID/Pakistan's IDP activities began in June 2009 and continued through December 2009. The mission responded through its existing development programs operating in the NWFP, FATA, and other areas in Pakistan to provide assistance. Five nongovernmental organizations and one contractor implemented programs that included two livelihood programs, two health programs, one education program, and one capacity-building program. These implementing partners supported IDP activities that included giving computers and logistical support to the GOP emergency-response personnel. In addition, USAID/Pakistan provided immediate assistance to displaced persons by providing health care services, short-term employment, protection and shelter, nonfood items such as mattresses, quilts, and candles, and continuing education for children and adults. See table 4 below for detailed information on USAID/Pakistan's IDP activities.

Table 4: IDP Activities Completed by USAID/Pakistan Programs

Mission Program	Activities
Livelihoods programs (2)	<ul style="list-style-type: none"> • 10,000 nonfood-item kits provided in lower FATA. • 22,836 household-restoration kits provided (included wheelbarrows, pickaxes, spades, saws, gloves) in upper FATA. • 2,330 tents provided to two camps in upper FATA. • 13,000 IDPs employed in cash-for-work jobs such as maintenance crews for site cleaning and construction of drains in upper FATA IDP camps.
Health programs (2)	<ul style="list-style-type: none"> • 24 new ambulances given to 7 NWFP districts. • 10 used vehicles converted into ambulances. • 48 health day events for IDPs. • 6 health facilities provided with equipment and furniture. • 4 birthing centers and 2 mobile medical units established.
Education program	<ul style="list-style-type: none"> • 54 temporary schools established in 27 camps in July 2009. By September 2009, 18 schools remained. A total of 23,176 displaced students received education. • 668 students received computer literacy classes in 14 IDP camps. • 496 women were taught to use sewing machines and earned over \$20,000 by stitching uniforms. • 369 men enrolled in electrician and plumbing classes. • 12,006 kitchen kits, 11,670 first-aid kits, and 12,034 hygiene kits provided to 27 camps.
Capacity-building program	<ul style="list-style-type: none"> • 2 rental vehicles and computer equipment provided to GOP officials.

5. USAID/Pakistan Grant to the U.N. World Food Programme. USAID/Pakistan awarded a \$21 million grant in October 2009 to the World Food Programme for 39,000 metric tons of wheat and oil purchased locally in Pakistan. According to the grant agreement, the food assistance would benefit IDPs in the NWFP and FATA regions. The grant agreement had an ending date of April 30, 2010.

- 6. USAID/Pakistan Cash Transfer to the Government of Pakistan.** USAID/Pakistan signed a cash-transfer grant agreement in September 2009 with Pakistan's Ministry of Economic Affairs and Statistics for a \$174 million emergency cash-transfer program with three separate cash transfers: (1) \$44 million in budgetary support for IDP families, (2) \$85 million in budgetary support for low-income families across Pakistan, and (3) \$45 million in budgetary support for university and technical education in NWFP, serving students from FATA and in other vulnerable areas. The second and third cash transfers did not relate to IDP activities.

Before the \$44 million cash transfer for IDPs was disbursed, USAID/Pakistan completed a preaward assessment of the host government and private units involved in the IDP program. The preaward assessment included tests of compliance for cash transfer processes between bank accounts, procedures to ensure beneficiaries were valid for IDP assistance, and payment systems to disburse monies to IDPs using a debit card system. The assessment concluded that these units' policies and procedures were sufficient—and highlighted program risks and suggested actions to address these risks.

Following this preaward assessment, USAID/Pakistan disbursed the \$44 million in November 2009 to support the GOP budget for IDP families. The cash-transfer agreement was intended to provide budgetary support to finance GOP payments to 140,000 IDP families—amounting to approximately \$312 for each such family. According to the grant agreement, verified IDP families received a debit card with a private pin code. Once the debit card was activated, IDP card holders could withdraw the \$312 in local currency from automated teller machines. The GOP had begun disbursing funds to IDP families in June 2009. Initially, the GOP had disbursed funds to 285,000 registered IDP families. However, registration continued and the GOP estimated that the number of registered IDP families would exceed 400,000 by August 2009. According to the mission, the GOP then provided such additional funding to IDP families in the expectation that the \$44 million in USAID funding would be subsequently provided to the GOP.

Although USAID had carried out numerous IDP activities in Pakistan, monitoring and evaluation methods needed improvement. Specifically, USAID's "alternative monitoring" methods used to monitor activities in dangerous and insecure areas, such as NWFP and FATA, needed to be strengthened. In addition, USAID/Pakistan had not implemented monitoring controls that were meant to provide reasonable assurance that the \$44 million in cash-transfer funds had actually reached IDP families. These two topics are discussed below.

USAID Could Improve Its Alternative Methods for Monitoring and Evaluation

Summary. Guidance applicable to USAID's Automated Directives System (ADS) identifies six alternative monitoring methods that missions designated as a high-threat environment may use to ensure sufficient USAID oversight of activities. The guidance authorizes using one or more of the six alternative methods. This review focused on third-party monitoring in Pakistan since it is one of the most effective methods to monitor program results in high-threat environments. USAID implemented third-party monitoring in only one of its six IDP programs. This occurred primarily because USAID/Pakistan had not established a missionwide third-party monitoring unit that could be used by any of the USAID program offices in Pakistan. Consequently, without an instrument to easily employ third-party monitoring in high-threat environments in Pakistan, USAID did not verify program performance or consistently validate results first hand for its IDP program activities.

Guidance listed on USAID's Web site as applicable to ADS 202, "Achieving," includes Interim Update 09-07, "Monitoring USAID Activities in High-Threat Environments," effective October 1, 2008. The update identifies alternative methods to monitor USAID activities in high-threat environments. The USAID Administrator has approved designation of USAID/Pakistan as a high-threat environment because program managers have only a limited ability to conduct site visits and verify program performance, meet with implementing partners and beneficiaries, and observe program activities first hand—especially in the dangerous and insecure areas of NWFP and FATA, where most IDP assistance is being provided. This guidance identifies six alternative monitoring methods that missions designated as a high-threat environment may use to ensure sufficient USAID oversight of activities. The six methods are:

1. Using local and/or third-party monitoring, usually with host country personnel who can readily travel in high-threat areas.
2. Requiring photographic evidence of accomplishments in periodic performance reports.
3. Engaging other U.S. Government agencies that may be working in the region to validate performance.
4. Using other technology for oversight, such as employing satellite imagery to verify performance.
5. Establishing flexible targets and results to allow implementing partners to set quarterly project results rather than end-of-project targets.
6. Delegating authority to a lead partner to act on behalf of one or more other partners to verify results.

The ADS authorizes missions designated as "high-threat environments" to use one or more of the six alternative methods. However, this review focused on third-party monitoring in Pakistan since it is one of the most effective methods to monitor program results in high-threat environments and since the other five methods have limited application and were in fact little used by the mission.

USAID implemented third-party monitoring in only one of its six IDP programs. While USAID's Office of Transition Initiatives (OTI) used third-party monitoring services to oversee its IDP activities, the other five USAID IDP programs did not. USAID could

strengthen its monitoring through the use of third-party monitoring. Table 5 identified the IDP activities that did or did not use third-party monitoring.

Table 5. USAID Major IDP Programs Using Third-Party Monitoring Services

USAID Major IDP Programs	Use of Third-Party Monitoring
USAID/OFDA Emergency Aid and Food Procurement	No
USAID/FFP PL Title II Food Aid	No
USAID/OTI IDP Assistance	Yes
USAID/Pakistan Miscellaneous Programs	No
USAID/Pakistan Grant to U.N. World Food Programme	No
USAID/Pakistan Cash Transfer to GOP	No

To OTI's credit, it engaged a local Pakistani nongovernmental organization to staff a third-party monitoring unit that provided onsite monitoring and evaluations of expected outputs for at least 39 of its projects. For example, the monitoring unit verified that a project had, as required, installed 15 electrical transformers in 10 IDP camps. In another OTI project, which provided nonfood-item kits, the monitoring unit conducted a site visit to an IDP camp in the Malakand District to inspect and verify that nonfood-item kits had been distributed.

Third-party monitoring did not occur in the other five USAID IDP programs, primarily because USAID/Pakistan had not established a missionwide third-party monitoring unit that could be used by any USAID program office in Pakistan, even though the mission itself had identified this lack as a "significant deficiency" in its annual Federal Managers' Financial Integrity Act (FMFIA) report.⁸ According to its FMFIA report certifications for 2008 and 2009, USAID/Pakistan had concluded that it needed to strengthen its monitoring and evaluation capacities by employing third-party services to mitigate its inability to monitor its programs. However, as of fiscal year 2009, little progress⁹ had been made to enable USAID technical teams to easily acquire third-party monitoring and evaluation services. In addition, USAID headquarters has repeatedly reported in its Agency-wide FMFIA reports a significant deficiency in the Agency's inability to implement and monitor activities in high-threat environments worldwide.

In spite of the absence of third-party monitoring and evaluation services for the mission's programs, USAID technical teams devised other methods to gather information to monitor IDP programs. Various monitoring and evaluation methods and tools were employed, such as weekly and monthly meetings of implementing partners with the technical teams and activity managers, quarterly performance reports with some photos submitted to USAID by implementing partners, daily phone conversations and e-mails, seminars with partners to evaluate assessments of progress, and meeting with GOP counterparts to discuss humanitarian assistance. And finally, OTI used its Pakistani staff to conduct onsite monitoring and evaluation.

⁸ To support the FMFIA annual certification, each mission must provide an annual certification on the overall adequacy and effectiveness of internal controls to the next management level. The certification includes a description of control deficiencies that could adversely affect the mission's ability to meet its internal control objectives. These are categorized as significant deficiencies.

⁹ USAID/Pakistan's FATA programs did provide third-party monitoring for specific FATA programs related to health and livelihood. However, this contractor did not monitor IDP activities.

However, without an instrument to easily employ third-party monitoring in high-threat environments in Pakistan, USAID did not verify program performance, observe program activities, or consistently validate results first hand for its IDP program activities. From May 2009 through December 2009, for programs that did not use third-party monitoring services, only five monitoring trips of IDP programs were made—an average of one monitoring trip per program. Table 6 illustrates the number of trips conducted by USAID technical officials for IDP programs that did not use third-party monitors. As summarized in the table, 3 programs had no monitoring trips, Food for Peace had 1, and the Office of Foreign Disaster Assistance had 4—a number that, although higher than that of the other programs listed, is not sufficient given the size of OFDA's IDP program and the number of partners implementing the program (21).

**Table 6. USAID Monitoring Trips Completed
May–December 2009**

IDP Programs Not Using Third-Party Monitoring	Number of Monitoring Trips	Obligated (\$ Millions)
USAID/OFDA Emergency Aid and Food Procurement	4	105.5
USAID/FFP ¹⁰ Title II Food Aid	1	95.3
USAID/Pakistan Miscellaneous Programs	0	10.9
USAID/Pakistan Grant to U.N. World Food Programme	0	21.0
USAID/Pakistan Cash Transfer to GOP	0	44.0

Even though USAID officials made a total of 5 trips to monitor IDP activities, the visits were not sufficient to verify outputs and confirm results achieved while working with 21 nongovernmental organizations, 5 U.N. organizations, 1 contractor, and the GOP and covering a portfolio of approximately \$277 million. Many activities, such as cash-for-work projects, have a high degree of inherent risk as such programs dispense cash and may need more monitoring to ensure that their funds are being used as intended. In addition, timely verification and validation are critical to ensure that a program is working, so that technical managers can take action to improve implementation. Furthermore, routine monitoring and evaluation are necessary to verify compliance with award requirements, to evaluate program impact, and to take timely action to improve performance.

Since USAID/Pakistan has not addressed the significant deficiency of its inability to monitor its programs in high-threat areas, the mission's technical offices have only a limited ability to conduct such monitoring without a missionwide instrument to easily procure third-party monitoring services. Furthermore, if the mission does not establish a missionwide instrument to procure such services, each program will have to attempt to do so on its own. For example, to monitor and evaluate three cash-transfer components in USAID/Pakistan's \$174 million cash-transfer program, USAID is planning to award several contracts to ensure that funding reached intended beneficiaries. Since there is no missionwide instrument to easily procure third-party monitoring and evaluation services, USAID will experience inefficiencies by duplicating acquisition processes and incurring additional costs to award, administer, and monitor multiple contractors.

¹⁰ OFDA and FFP officials made two joint monitoring trips in January and March 2010. This review did not include these trips since the date was beyond the scope of the review.

Notably, USAID has addressed similar deficiencies in monitoring and evaluation at other missions working in high-threat environments, including Iraq and Afghanistan. To address these deficiencies, both missions have contracted for missionwide third-party monitoring and evaluation services. Specifically:

- USAID/Iraq instituted a third-party monitoring and evaluation program that started in 2003 and continues today. The third-party provider focused on monitoring and evaluating ongoing activities to provide USAID/Iraq with regular feedback on program performance.
- USAID/Afghanistan instituted a third-party monitoring and evaluation program that began in 2006 and continues today. This program provided third-party monitoring and evaluation coverage for all its mission technical offices.

These monitoring programs in Iraq and Afghanistan not only provided third-party monitoring capability, they also assisted technical offices and implementing partners in developing and updating performance monitoring plans; in monitoring program results against stated indicators in the missions' operational plan; and in ensuring that data quality assessments were conducted for the indicators on which the programs are reporting. As such, in addition to the recommendation we are making below to develop and award a procurement instrument to obtain third-party monitoring and evaluation services, we suggest you also consider the information and recommendations contained in our Audit of USAID/Iraq's Monitoring and Evaluation Performance Program (report number E-267-08-004-P, dated July 3, 2008).

USAID/Pakistan, OFDA, and FFP need to employ third-party monitoring services that are readily available for their technical offices. USAID has recognized that they need to establish a missionwide monitoring and evaluation contract and have taken steps to do so. During the review, the mission hired a senior program officer and designated another staff member as advisers for its monitoring and evaluation program. Also, the mission is developing a statement of work for a missionwide monitoring and evaluation contract. Even though the mission has taken initial steps toward procuring third-party monitors and evaluators, which can be used by any program in the mission, we recommend the following:

Recommendation 1. *We recommend that USAID/Pakistan develop and award a procurement instrument to provide third-party monitoring and evaluation services to assist mission technical offices in implementing internally displaced persons programs, other mission programs, and in-country Washington-based programs such as those carried out by the Offices of Foreign Disaster Assistance and Food for Peace.*

USAID/Pakistan Has Little Assurance That Financial Assistance Reached Internally Displaced Persons

Summary. The grant agreement for the \$44 million cash transfer for IDP families identified four controls to be implemented by the mission and the GOP. However, 6 months after the cash transfer was made to the GOP, neither the mission nor the GOP had implemented any of the controls that were meant to provide reasonable assurance that the funds had actually reached IDPs. USAID/Pakistan did not implement the four monitoring controls because the mission's technical representative did not take prompt action to issue an implementation letter, which would have led the GOP to provide the required documentation to the mission. Because the mission did not comply with the agreement's monitoring requirements, inherent program risks were not mitigated by implementing required controls. Consequently USAID has little assurance that cash-transfer funds actually reached displaced families.

The grant agreement for the \$44 million cash transfer for IDP families identified four controls¹¹ to be implemented by the mission and the GOP to ensure that agreement funds were used as intended. However, 6 months after the cash transfer was made to the GOP, on November 19, 2009, neither the mission nor the GOP had implemented any of the controls that were meant to provide reasonable assurance that the agreement funds had actually reached IDPs. The cash-transfer agreement had intended to provide budgetary support to finance GOP payments to 140,000 IDP families—amounting to approximately \$312 for each such family. The families would not have been supported had this funding not been provided.

The four controls outlined in the agreement required (1) the GOP to give USAID quarterly expenditure reports on the uses of funds as well as the status of the separate bank dollar account until the dollars were fully withdrawn; (2) the GOP to give USAID a list of IDP families showing payments to those families totaling \$44 million; (3) USAID to verify from expenditure reports and beneficiary listings that the funds disbursed had reached displaced families; and (4) USAID to conduct spot checks and evaluations on the effectiveness of the cash transfer. In addition, on the basis of the cash-transfer agreement, the mission's agreement officer's technical representative was to correspond with the GOP's Ministry of Economic Affairs and Statistics through an implementation letter¹² that was to provide additional reporting requirements and formats.

However, USAID/Pakistan did not ensure that these four controls were carried out after the \$44 million was disbursed in November 2009. Specifically, the mission did not:

¹¹ A fifth control requires USAID to have the Auditor General of Pakistan conduct an audit to validate the flow of funds from the Ministry of Finance through to the beneficiaries. According to the controller's office, audit work will begin after the Pakistani fiscal year ends in June 2010. The grant agreement requires that the Auditor General of Pakistan audit (1) the separate dollar account; (2) the local currency account derived from the dollar account; and (3) the ultimate receipt of funds by the IDPs. OIG has a memorandum of understanding with the Auditor General to do audits of USAID funding provided to the GOP and will oversee this audit work.

¹² An implementation letter is a formal correspondence between USAID and another party following a prior formal agreement to obligate funding for that agreement. Implementation letters serve several functions, including providing more detailed implementation procedures and providing details on terms of an agreement.

1. Require the GOP to provide quarterly expenditure reports.
2. Require the GOP to provide a list of the 140,000 IDP families that received funds.
3. Verify the use of funds provided to 140,000 families to help that ensure funding reached IDP families.
4. Conduct spot checks and evaluations on the effectiveness of the cash transfer.

USAID/Pakistan did not implement these monitoring controls because the mission's technical representative did not take prompt action to issue an implementation letter that would have led the GOP to provide the quarterly report and list of IDP families. Hence USAID/Pakistan did not carry through with verification, spot checks, or an evaluation of effectiveness. We believe that the mission should have started monitoring and evaluation controls immediately upon disbursement of the funds instead of waiting until almost a half year after funds had been disbursed, as many of the IDP families who received payments have since left their camps to return to their places of origin. When the IDPs relocate, verification of their funds becomes more difficult.

Because the mission did not comply with the agreement's monitoring requirements, inherent risks were not mitigated by implementing required controls. The failure to take timely action to implement controls over the November 2009 \$44 million cash disbursement left USAID with little assurance that the funds had actually reached displaced families.

To help the mission ensure that required monitoring and evaluations are carried out, we are making the following recommendations:

Recommendation 2. We recommend that USAID/Pakistan require the Government of Pakistan to provide (1) quarterly expenditure reports for internally displaced persons disbursements and (2) a list of payments totaling \$44 million made to internally displaced persons.

Recommendation 3. We recommend that USAID/Pakistan verify the use of funds from the quarterly expenditure reports and the list of internally displaced persons and confirm that the Government of Pakistan provided funds to at least 140,000 families as a result of this cash-transfer program.

Recommendation 4. We recommend that USAID/Pakistan conduct spot checks on and evaluations of the effectiveness of the cash-transfer program.

EVALUATION OF MANAGEMENT COMMENTS

On the basis of an evaluation of the mission's response to the draft report, the Office of Inspector General determined that final action has been taken on two recommendations, and management decisions have been reached on two recommendations. The status of each of the four recommendations is shown below.

Final action—recommendations 2 and 4.

Management decision—recommendations 1 and 3.

For recommendation 1, the mission agreed with the recommendation and has begun consulting with technical teams and drafting a statement of work for a missionwide monitoring and evaluation contract. The target date for award of the monitoring and evaluation procurement instrument is December 2010.

For recommendation 3, the mission agreed with the recommendation and plans verifying and confirming the use of funds after the receipt of the required reports from the Government of Pakistan. The mission expects to receive a completion report in the form of a list of approximately 140,000 beneficiaries for USAID's contribution by July 2010 and to verify this completion report by performing checks on a sample of beneficiaries by December 2010.

We consider that management decisions have been reached on recommendations 1 and 3. A determination of final actions will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

The mission's written comments on the draft report are included in their entirety, without attachments, as appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila (RIG/Manila) conducted this review of USAID's internally displaced persons (IDP) programs in Pakistan. This review was not an audit. The purpose of this review was to determine the status of USAID's IDP programs in Pakistan. There were no prior audits associated with the areas reviewed. We conducted this review at USAID/Pakistan from February 9 to May 14, 2010, in Islamabad, Pakistan. We also corresponded with USAID's Office of Foreign Disaster Assistance (OFDA), Food for Peace (FFP), and Office of Transition Initiatives (OTI) located in USAID/Washington. In addition, OFDA and OTI had established field offices at the mission in Islamabad. The review focused on USAID's IDP programs performed from October 1, 2008, through December 31, 2009, with updates through May 2010. Further, we conducted this review concurrently with the Department of State OIG during its audit of the Bureau of Population, Refugees, and Migration's IDP program in Pakistan. Together, USAID and the Department of State provided 88 percent of U.S. Government funding in response to Pakistan's IDP crisis from October 1, 2008, through December 31, 2009.

Methodology

To answer the review objective, we interviewed officials and analyzed relevant documentation on six IDP programs carried out by OFDA, FFP, OTI, and USAID/Pakistan. These discussions and documents covered USAID's monitoring and evaluation guidance, background, organizations, financial reports, staffing responsibilities, Federal Managers' Financial Integrity Act reviews, preaward assessments, third-party monitoring reports, progress reports, and agreements between USAID and the implementing partners. For USAID's IDP programs that took place from October 1, 2008, through December 31, 2009, the review analyzed the status of the programs implemented; determined the funds obligated and disbursed; and examined the methods used to monitor and evaluate in high-threat environments.

MANAGEMENT COMMENTS



MEMORANDUM

Date: June 16, 2010

To: Bruce N. Boyer
RIG/Manila

From: Robert J. Wilson /s/
Mission Director

Subject: Management Comments
Review of USAID's Internally Displaced Person Programs in Pakistan.
(Report No. 5-391-10-XXX-S)

Reference: Draft review report No 5-391-10-XXX-S dated June 04, 2010.

In response to the referenced draft review report, please find below the management comments on the four recommendations included therein:

Recommendation 1. We recommend that USAID/Pakistan develop and award a procurement instrument to provide third-party monitoring and evaluation services to assist mission technical offices in implementing internally displaced persons programs, other mission programs, and in-country Washington-based programs such as those carried out by the Offices of Foreign Disaster Assistance and Food For Peace.

Management Comments:

Mission management concurs with this recommendation and the following steps have been started to address the recommendation.

- A Foreign Service National (FSN) has been designated as the Monitoring and Evaluation (M&E) Advisor in the Program Resource Management Office (PRM).
- The PRM office established and mission approved a new US Personal Services Contractor/Third Country National Senior Program Advisor position for M&E. While initial recruitment efforts proved unsuccessful, primarily due to visa problems, the position has been re-advertised and the target date for filling the position is November 2010.

- PRM is currently consulting with technical teams and drafting a statement of work for a Mission-wide M&E contract. The target date for award of the procurement instrument is December 2010.
- A new Mission strategy was developed in December and incorporated as the basis for the report to Congress on the implementation of the Kerry Lugar Berman legislation, and will also serve as the basis for finalizing measures and performance indicators.. PRM is currently preparing a results framework to provide the basis for the development of Performance Measurement Plans (PMP).

Recommendation 2. We recommend that USAID/Pakistan require the Government of Pakistan to provide (1) quarterly expenditure reports for internally displaced persons disbursements and (2) a list of payments totaling \$44 million made to internally displaced persons.

Management Comments:

Mission management concurs with the recommendation as the Mission specifically required the GOP in the Assistance Agreement under Section 7.4. Monitoring and Reporting (Annex 1) to provide quarterly reports and a list of beneficiaries to USAID for its full contribution. The Mission has also taken steps to remind the GOP of these requirements. A draft of an Implementation Letter addressing these requirements was delivered to Economics Affairs Division (EAD) for discussion by hand on April 20, 2010. The letter was hand delivered again on June 10, 2010 as an additional reminder. In addition to going through the official reporting contact at EAD, the Mission also reminded NADRA, the GOP entity that has the most relevant data for monitoring the IDP cash transfer program, of the quarterly reporting requirements, both in person and by email on February 12, 2010. Mission will continue to follow up on these issues until the required reports are provided.

Therefore, we request the closure of this recommendation upon report issuance.

Recommendation 3. We recommend that USAID/Pakistan verify the use of funds from (1) the quarterly expenditure reports and (2) the list of internally displaced persons and (3) confirm that the Government of Pakistan provided funds to at least 140,000 families as a result of this cash-transfer program.

Management Comments:

Mission management concurs with the recommendation. The use of the funds will be verified and confirmed after the receipt of the required reports from the GOP. The Mission expects to receive a completion report in the form of a list of approximately 140,000 beneficiaries for USAID's full contribution by July 2010 and to verify this completion report by performing checks on a sample of beneficiaries by December 2010. Mission has also prepared a statement of work for the audit of the cash transfer program to be done by the Supreme Audit Institution (SAI) of Pakistan. Also the activity manager has drafted the statement of work for the verification of the funds disbursed to IDPs using the existing BPA mechanism with RIG approved CPA firms.

Recommendation 4. We recommend that USAID/Pakistan conduct spot checks on and evaluations of the effectiveness of the cash-transfer program.

Management Comments:

Mission management concurs with the recommendation. USAID hired a consultant to examine the operations and impact of the cash transfer program and to determine the extent to which the funds reached the intended beneficiaries and received a report (Annex 2) titled Cash Transfer Monitoring Program on June 04, 2010. Therefore, we request the closure of this recommendation upon issuance.

Atch: a/s

CC: ASIA/SCAA: Andrew Plitt

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