



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/WEST BANK AND GAZA'S INFRASTRUCTURE NEEDS PROGRAM I: SELECTED WATER TASK ORDERS

AUDIT REPORT NO. 6-294-11-008-P
JUNE 30, 2011

CAIRO, EGYPT



Office of Inspector General

June 30, 2011

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Michael T. Harvey

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Audit of USAID/West/Bank and Gaza's Infrastructure Needs Program I: Selected Water Task Orders (Report Number 6-294-11-008-P)

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

The report includes five recommendations to USAID/West Bank and Gaza. Based on actions taken by the mission and supporting documentation provided, management decisions have been reached on Recommendations 1, 2, and 4. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close these outstanding recommendations.

Management decisions have not been reached on Recommendations 3 and 5. Management decisions can be reached when USAID/West Bank and Gaza provides us with a firm plan of action and target date for implementing these two recommendations. Please advise our office within 30 days of the actions planned or taken to implement the outstanding recommendations.

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

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SUMMARY OF RESULTS

According to a U.N. publication, development experts have long recognized that improving access to safe drinking water contributes to sustainable development. Improved water services can save households time and money that they would have spent transporting water or buying it from alternative providers. Other potential benefits include improved health and education outcomes.¹

In the West Bank and Gaza, Palestinians consume approximately 50 liters of water per day per capita, about one-third of the worldwide target established by the World Health Organization.² According to USAID/West Bank and Gaza, water infrastructure facilities are inadequate to meet basic domestic and commercial needs across much of the West Bank and Gaza. The existing infrastructure perpetuates poor and deteriorating public services and is a significant challenge to economic growth and development. Water main breaks and pump failures occur frequently because of badly deteriorated water and sewage systems.

To address these and other vital infrastructure needs, USAID/West Bank and Gaza launched the Infrastructure Needs Program (INP) I in 2008, a program with authorized expenditures of \$300 million for construction activities—such as rehabilitation of roads, water systems, and schools in the West Bank—and \$58 million for a contract to provide engineering and construction management services for the activities. Under the program, USAID/West Bank and Gaza awarded indefinite quantity contracts to American Intercontinental Constructors (AIC), APCO/Arcon, International Relief and Development, and Morganti to conduct these projects; the mission awarded the management contract to MWH Americas. According to the fact sheet the mission developed for the program, the goals of INP I are to:

- Provide essential infrastructure projects for a viable future Palestinian state.
- Provide critical support to ministries and agencies of the Palestinian Authority that focus on infrastructure operation and maintenance issues.
- Hire experienced personnel to join Palestinian firms and train local engineers and project managers on U.S. design, construction, and safety standards and protocols.
- Provide significant employment opportunities to Palestinian workers.

As of December 31, 2010, USAID/West Bank and Gaza had obligated \$316,458,435 under the program, including 44 construction task orders totaling \$258,458,435 and \$58,000,000 for the management contract. Total expenditures as of December 31, 2010, were \$220,804,975. The total obligated amount includes \$29,209,606 for three task orders that USAID/West Bank and Gaza awarded to AIC to improve access to water for the residents of the Hebron, Bethlehem, and Jerusalem governorates. The purpose of the projects under these task orders is to reduce losses from aging water systems, construct and rehabilitate pipelines and reservoirs to improve

¹ David Le Blanc, "Providing water to the urban poor in developing countries: the role of tariffs and subsidies," *Sustainable Development Innovation Briefs*, Issue 4, U.N. Secretariat, October 2007.

² "An Analysis of the Economic Restrictions Confronting the West Bank and Gaza," U.N. Office for the Coordination of Humanitarian Affairs – Occupied Palestinian Territories Report, September 2008.

the distribution of water supplies, and develop new water sources. As of December 31, 2010, USAID/West Bank and Gaza had expended \$13,471,317 under these task orders.

On September 29, 2008, USAID/West Bank and Gaza signed Task Order 9, the Nuba-Idna Water System Project, with AIC, valued at \$9,353,606. The purpose of this task order was to construct and rehabilitate pipelines and reservoirs in the western Hebron Governorate. The target completion date for the task order was August 16, 2009.

The mission also signed Task Orders 27 and 28 with AIC valued at \$19,856,000, on September 29, 2009, and September 25, 2009, respectively. The purpose of these two task orders was to rehabilitate seven well stations, six in the Bethlehem Governorate and one in the Jerusalem Governorate. The target completion date for both task orders was November 8, 2010.

With most INP I projects completed or nearing completion, USAID/West Bank and Gaza authorized a follow-on INP II program with estimated expenditures of \$750 million for construction activities. Recently, the mission awarded the construction management indefinite quantity contract to Black & Veatch, with estimated expenditures of \$150 million, and is currently evaluating proposals from construction firms.

The Regional Inspector General/Cairo conducted this audit to determine whether Task Orders 9, 27, and 28 under USAID/West Bank and Gaza's INP I were achieving the program's main goal: to provide essential water infrastructure projects for a viable future Palestinian state.

USAID/West Bank and Gaza has made substantial progress providing essential water infrastructure projects in the western Hebron Governorate. AIC completed Task Order 9 on time, benefiting 29,573 residents who are now able to use the new and rehabilitated pipelines and reservoirs. However, delays in the implementation of Task Orders 27 and 28 have kept Palestinians from realizing the full benefit of the projects, including an increased and more constant water supply through the rehabilitation of seven of the water system's pumping stations. In addition, USAID/West Bank and Gaza faces challenges in assessing the impact and effectiveness of these activities because reported results were not supported by sufficient documentation and the program's indicators were not designed to measure the impact of the program effectively.

Under Task Order 9, AIC completed the planned construction of pipelines and reservoirs in the western Hebron Governorate on time. Activities under this task order included the following:

- Construction of a new water reservoir in the village of Beit Aula to provide additional storage capacity.
- Rehabilitation of the reservoir in the village of Tarqumiya.
- Installation of a new transmission pipeline linking the water reservoirs in Nuba, Beit Aula, and Tarqumiya.
- Rehabilitation of the water distribution network in the village of Tarqumiya.

USAID/West Bank and Gaza approved an extension of 30 days to allow additional complementary activities to be completed using the funds set aside in the contract for contingencies that remained at the end of the implementation period. The primary

complementary activities included rehabilitation and paving of the roads leading to the two reservoirs rehabilitated or constructed under the task order as well as to the Nuba reservoir, which is part of the same water network.

Beneficiaries of the new and rehabilitated reservoirs and pipelines said that the infrastructure has been beneficial to their communities. For example, one municipal engineer stated that the rehabilitation of pipelines had reduced water loss due to leakage. Additionally, the system is supplying more water to residents and reducing reliance on water that had been transported by truck at five times the cost of the water provided by the Palestinian water system.

For Task Order 27, AIC did not complete activities to rehabilitate three well stations in the southern half of the West Bank by the original completion date of November 8, 2010. The estimated completion date was May 24, 2011, or 197 days after the original target completion date. USAID determined that the majority of the 197 days of delays were outside the control of the contractor, but concluded that some of the delays were the responsibility of the contractor. The delays are described below:

- The most significant delays were attributable to two extensions granted by the mission to AIC resulting from working with ABB, the original vendor for the medium-voltage, variable-frequency drives—a key component that needed to be repaired at the four pumping stations under this task order. Because ABB requires Israeli military escort when it goes to the West Bank to perform these repairs, it must wait until the military is available to provide the escort.
- Another delay was attributable to problems that AIC's subcontractor, Saqqa and Khoudary (SAK), encountered in procuring the column pipes for the pumping stations. Although one U.S. company supplying the pipes had informed SAK that it could provide the pipes, that company was not able to do so when the time came to place the order. The pipes had to be ordered from Germany and required a waiver of source and origin requirements in order to proceed.
- The other significant delay was the responsibility of AIC because of its delays in submitting paperwork at the beginning of the project to obtain needed waivers of source, origin, and nationality requirements and request donation numbers from the Government of Israel, which are necessary to transport the commodities into the West Bank.

For Task Order 28, AIC did not achieve the planned activities by the original completion date of November 8, 2010. The estimated completion date was April 26, 2011, or 169 days after the original target completion date. USAID determined that the majority of the 169 days of delays were outside the control of the contractor, but concluded that some of the delays were the responsibility of the contractor. The delays are described below:

- The most significant delay was attributable to problems that AIC's subcontractor, SAK Contracting, encountered in procuring the column pipes for the pumping stations, which were the same problems as those in Task Order 27.
- Another delay resulted from unforeseen work required to repair the grounding systems for three of the pumping stations.
- An additional delay was attributable to problems meeting source and origin requirements in obtaining medium-voltage switchgears. AIC's subcontractor, SAK, found that the switchgears were available from a U.S. supplier, but upon placing the order, it learned that

the manufacturer of the gears had shifted production to a facility in Canada, and thus the switchgears no longer met the origin requirements of the contract. As a result, AIC had to seek a waiver from USAID before it could continue with the procurement.

- Another delay was attributable to needed modifications to the medium-voltage switchgear controls that the construction engineer discovered during the commissioning of one station's submersible pump.
- The other significant delay was the responsibility of AIC because of its delays in submitting paperwork at the beginning of the project to obtain needed waivers of source, origin, and nationality requirements and request donation numbers from the Government of Israel, which are necessary to transport the commodities into the West Bank.

During its implementation of INP I, USAID/West Bank and Gaza identified some vulnerabilities in the design of the program that could have affected the program's efficiency and sustainability. For example, a considerable amount of classroom and on-the-job training is being provided to West Bank Water Department personnel to ensure that they know how to operate and maintain the equipment; however, high turnover among Water Department staff as well as a lack of funds available for ongoing system maintenance could have resulted in systems not realizing their entire useful life because of a lack of proper maintenance. Both AIC and SAK noted this vulnerability, citing instances where the Palestinian Water Authority did not properly maintain equipment at the pumping stations. When systems failed at one pumping station, staff took parts from other pumping stations to perform the repairs. As a result, the network of pumping stations was not able to function at full capacity.

To address this problem, the mission included capacity-building provisions in the recently issued construction management contract for INP II. These provisions require the contractor to implement activities to improve the capacity of the Palestinian Water Authority and the municipal water offices to manage, operate, maintain, expand, and finance key infrastructure in order to protect valuable infrastructure investments and reduce dependency on international donor funding.

Another potential vulnerability that the mission identified was the practice of one U.S.-based construction firm subcontracting 100 percent of the construction effort to a local firm. This arrangement resulted in some inefficiency in the program, with the U.S.-based company adding little value to the construction effort. To address the vulnerability, the request for proposals for the INP II program included a provision prohibiting INP II construction contractors from acting as intermediaries without contributing any value. U.S. contractors will not be able to subcontract their contracts to local firms on a percentage basis or rely on local subcontractors to perform the work completely.

Although USAID/West Bank and Gaza has made substantial progress through the three task orders audited toward achieving the program's main goal of providing essential infrastructure projects for a viable future Palestinian state, delays in the implementation of two of the three task orders audited have kept Palestinians from realizing the projects' full benefit.

Moreover, the audit identified two weaknesses in program monitoring and evaluation:

- Some reported results were not reliable (page 6).
- Indicators were not designed to measure program impact (page 8).

The audit recommends that USAID/West Bank and Gaza do the following to improve the effectiveness of INP I and future programs:

1. Provide detailed definitions of all Infrastructure Needs Program indicators to all partners (page 7).
2. Implement controls to ensure that indicator data reported under the Infrastructure Needs Program I and Infrastructure Needs Program II are accurate and reliable (page 7).
3. Verify and correct any errors in the reported results data for the Infrastructure Needs Program (page 7).
4. Strengthen results reporting to ensure that indicators are effective in measuring achievements for the Infrastructure Needs Program I and the Infrastructure Needs Program II (page 9).
5. Prepare and approve performance management plans for all mission activity objectives in accordance with Automated Directives System 203.3.3 (page 9).

Detailed findings follow. Our evaluation of management comments is on page 10. The audit scope and methodology are described in Appendix I (page 12), and management comments are in Appendix II (page 14).

AUDIT FINDINGS

Some Reported Results Were Not Reliable

According to Performance Monitoring and Evaluation TIPS No. 7, "Preparing a Performance Monitoring Plan," a supplementary reference document for Automated Directives System (ADS) Chapter 203, "Assessing and Learning," each performance indicator needs a detailed definition. Furthermore, an effective performance monitoring system needs to plan not only for the collection of data but also for data analysis, reporting, review, and use. Additionally, ADS 203.3.4 states, "Performance indicators are used to observe progress and to measure actual results compared to expected results. Performance indicators help answer how or if a USAID Mission/Office or AO Team is progressing towards its objective(s)."

The initial INP approval documents highlighted the importance of generating employment, one of the program's goals, stating that "a cross-cutting component of this program will be to create employment opportunities by using labor intensive techniques... [which] will, in addition, lead to modest injections of money into the struggling Palestinian economy." According to the indefinite quantity contracts with AIC and MWH, the construction management contractor is responsible for "general oversight of institutional capacity building and employment generation activities," and labor-intensive techniques will be used to create employment opportunities.

USAID/West Bank and Gaza designated MWH to enter all data into the mission's results tracking system. However, the results reporting system for INP I was weak, and some of the reported data were inaccurate. Additionally, targets entered into the mission's tracking system for *Employment days generated* and *Value of commodities/equipment delivered* for Task Order 9 match the actual amounts exactly, which implies that the targets were not established ahead of time or were adjusted to equal the results reported. The mission could not explain why amounts matched exactly. Reported data discrepancies under the three AIC task orders were as follows:

- *Temporary Job Days Generated Under Task Order 9.* The original number reported by AIC and the number in the mission's results tracking system do not match. USAID/West Bank and Gaza reported 11,594 job days generated for fiscal year (FY) 2009, whereas AIC's final report for Task Order 9 reported 12,037. Furthermore, the amounts reported by AIC were not consistent with the amounts in the daily joint construction reports, which were the source of the reported number of days. As a result, AIC prepared a corrected summary of job days generated, which shows a total of 10,479 days. However, this total included 534 employment days for two American employees of AIC, which should not have been included. As a result, the total number of job days generated should have been 9,945; thus, the original reported amount was overstated by 14 percent.
- *Temporary Job Days Generated Under Task Orders 27 and 28.* USAID/West Bank and Gaza reported a total of 1,312 days for Task Order 27 and 840 days for Task Order 28 for FY 2010. Neither the mission nor its contractors could explain where the reported numbers came from. AIC maintained daily employment logs that MWH could have used to generate this information, but AIC did not provide this information to MWH to be reported to the mission. Additionally, although USAID/West Bank and Gaza set up its results reporting

system to report the number of job days by activity, neither AIC nor MWH maintained its data by activity. As a result, USAID/West Bank and Gaza reported all of the job days under only one of the four activities under Task Order 27 and one of the three activities under Task Order 28.

- *Value of Commodities/Equipment Delivered Under Task Order 9.* The reported FY 2009 amount was \$4,113,971, but the actual amount could not be determined because the indicator was not fully defined. The reported number came from a report provided to MWH by AIC. AIC was asked to report on this indicator but was not provided any guidance on methodology or told what to include in the calculation. Discussions with the AIC contract manager showed that he was not certain what to include and was not aware of the importance of the accuracy of the amounts. He said that some categories of commodities were not included and that some amounts included were estimates, whereas others included the labor associated with installing parts and not only the value of the parts.

USAID/West Bank and Gaza expected data in the results tracking system to be verified before being entered. However, data verification did not occur and the partners' controls over reporting and monitoring were weak, leading to inaccurate data. For example, MWH took the number of employment days generated directly from monthly reports from contractors, which include worker log days taken from joint daily reports completed on site. MWH did not verify these data with AIC, and the AIC contract manager responsible for compiling the data was not aware that these numbers mattered or needed to be accurate. Neither the mission nor MWH provided the contract manager with a methodology for calculating them, nor did MWH or the mission ever ask him to verify any of the numbers. The contracting officer's technical representative conducted a data quality assessment of INP, but the scope was limited and did not cover indicators being tracked under the tested task orders, apart from the number of beneficiaries, which was calculated based on Palestinian Authority census data rather than contractor data.

Although the mission's Program and Project Development Office has worked with MWH on data collection, staff turnover has resulted in gaps in the results reporting and verification system. MWH staff members responsible for data reporting for the entire program were not aware of their responsibility to verify the data before entering it into USAID/West Bank and Gaza's results reporting system. Because of the weaknesses in its data reporting, USAID/West Bank and Gaza cannot rely on the reported results to track progress or report to USAID/Washington or Congress. Nor can the mission rely on the data to make decisions regarding the program's achievement or future allocations of funds. Therefore, this audit makes the following recommendations.

Recommendation 1. *We recommend that USAID/West Bank and Gaza provide detailed definitions of all Infrastructure Needs Program indicators in writing to all partners.*

Recommendation 2. *We recommend that USAID/West Bank and Gaza develop and implement a plan with milestones to establish controls that require indicator data reported under the Infrastructure Needs Program I and Infrastructure Needs Program II to be accurate and reliable.*

Recommendation 3. *We recommend that USAID/West Bank and Gaza verify and correct in writing any errors in the reported results data for the Infrastructure Needs Program.*

Indicators Were Not Designed to Measure Program Impact

Both implementers and USAID missions have a responsibility to set appropriate indicators and targets and to review and assess their relevancy periodically. 31 U.S.C. 1115(a) requires, among other things, that agencies prepare annual performance plans that “establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.” Additionally, ADS 203.3.2.2.b states, “USAID Missions/Offices should use performance information to assess progress in achieving results and to make management decisions.” Moreover, ADS 200.2, “Primary Responsibilities,” states that USAID missions must develop the capacity to manage foreign assistance programs and ensure that teams have the necessary expertise, authorities, resources, and support to achieve their objective.

USAID/West Bank and Gaza was not tracking any INP impact indicators. For the three audited task orders, the mission tracked only output indicators, such as length of pipelines and number of pumping stations. These indicators do not effectively measure the extent to which the activities are contributing to achieving the program’s main goal. Mission staff agreed that the indicators were not capturing the program’s impact in a meaningful way.

The lack of impact indicators occurred because the mission developed its indicators to align with the annual reporting requirements established by the Department of State’s Office of the Director of U.S. Foreign Assistance. These reporting requirements focus on output indicators, and as a result no impact indicators were identified for INP I. Although the mission could have developed and tracked other indicators in addition to those in the Department of State’s results reporting system, it did not do so for INP I.

In addition, USAID/West Bank and Gaza did not develop a performance management plan (PMP) for the program, nor did it have PMPs for other programs and activities, as required by ADS 203.3.3, which states: “[Assistance Objective] Teams must prepare a complete Performance Management Plan (PMP) for each [Assistance Objective] for which they are responsible.” The program office explained that its performance management of programs relies on alternative methods, namely the operational plan. However, the operational plan does not include everything required in a PMP, such as a schedule and method for data collection, detailed indicator definitions, data quality assessment procedures, possible evaluation efforts, or a calendar of performance management tasks. A well-constructed PMP could have helped the mission develop appropriate indicators based on the mission’s and the program’s strategic goals.

Without these indicators, USAID/West Bank and Gaza is unable to determine the overall impact of the construction activities in terms of quality-of-life improvements for the Palestinian people. Measuring program impact is especially important for a program such as INP I because of its high level of funding and the fact that no midterm assessment of the program was made and no other assessments were planned to examine the impact of the program.

To ensure that the mission has the quality data it needs to evaluate the impact of INP and that other future mission programs are able to benefit from a robust performance management system, the audit makes the following recommendations.

Recommendation 4. *We recommend that USAID/West Bank and Gaza strengthen results reporting by requiring that program indicators be effective in measuring achievements for the Infrastructure Needs Program I and the Infrastructure Needs Program II.*

Recommendation 5. *We recommend that USAID/West Bank and Gaza prepare and approve performance management plans for all mission activity objectives in accordance with Automated Directives System 203.3.3.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/West Bank and Gaza provided its written comments on our draft audit report, has begun taking corrective action on three of the five recommendations in the draft report, and has partially addressed one other recommendation. Based on the actions taken by the mission, management decisions have been reached for three recommendations. Our evaluation of management comments is shown below.

USAID/West Bank and Gaza has begun addressing Recommendation 1 to provide detailed definitions of all indicators in writing to all partners. The mission expects to issue an updated document with detailed definitions to all INP implementing partners before the end of August 2011. Accordingly, a management decision has been reached on this recommendation.

Regarding Recommendation 2, to develop and implement a plan with milestones to establish controls that require indicator data reported under the Infrastructure Needs Program I and Infrastructure Needs Program II to be accurate and reliable, USAID/West Bank and Gaza has begun addressing the recommendation. In addition to updating the indicator definitions, as described in Recommendation 1 above, the mission will conduct quarterly spot checks, starting in October 2011. The mission's architectural and engineering contractors MWH and Black & Veatch will conduct quarterly spot checks of data, with the first one to be completed by September 2011, in accordance with the mission's newly established verification schedule for INP. Accordingly, a management decision has been reached on this recommendation.

USAID/West Bank and Gaza's response to Recommendation 3, to verify and correct in writing any errors in the reported results data for INP, partially addresses our recommendation. USAID/West Bank and Gaza will request that MWH submit a plan by the end of August 2011 for the verification and correction of previously reported results data for the audited Infrastructure Needs Program I Task Orders 9, 27, 28 and any other ongoing INP I task orders, with a targeted completion of December 2011.

However, except for the three task orders covered by this audit, the mission's response does not discuss actions to be taken to correct errors in the reported data for INP I task orders that have already been completed. Because the same implementer, MWH, was responsible for reporting for all task orders under INP I, the reported data is susceptible to the same reporting errors that occurred for the task orders we audited. Reviewing and correcting the data for all INP I task orders will help ensure that the mission accurately reports the accomplishments of INP I to external parties. This exercise will also provide the mission with more reliable results data to be used in making decisions regarding future programming decisions. Accordingly, a management decision has not been reached on Recommendation 3. A management decision can be reached when the mission's plan of action is expanded to include all task orders under INP.

USAID/West Bank and Gaza agreed with Recommendation 4, to strengthen results reporting by requiring that program indicators be effective in measuring achievements for the Infrastructure Needs Program I and the Infrastructure Needs Program II. For INP I, the mission will issue the updated document with detailed indicator definitions (as described in response to

Recommendation 1) to all INP implementing partners before the end of August 2011. The INP II performance management plan, to be completed by the end of July 2011, will include both output and impact indicators that measure both the short-term results and lasting effects achieved through INP II activities. The PMP will also define the monitoring and evaluation plans in detail, including the identification of data collection responsibilities, a data quality plan, and an evaluation plan. Accordingly, a management decision has been reached on this recommendation.

The mission did not express agreement with the Recommendation 5, that USAID/West Bank and Gaza prepare and approve PMPs for all mission activity objectives in accordance with Automated Directives System 203.3.3. The mission stated that the Director of the Program and Project Development Office would issue a reminder to contract and agreement officers' technical representatives by the end of June 2011, outlining their responsibilities and emphasizing the relevant sections of ADS 203 they should follow as they approve PMPs under their respective awards. However, this action does not address the main issue: the mission did not have PMPs that reflect the current mission programs and activities, as required by ADS 203.3.3: "[Assistance Objective] Teams must prepare a complete Performance Management Plan (PMP) for each [Assistance Objective] for which they are responsible." The reminder would still have the mission relying on implementing partners to develop PMPs. Neither these partner PMPs nor the operational plan covers everything required by ADS, particularly how the mission will manage the implementing partner. Accordingly, a management decision has not been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo (RIG/Cairo) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis. The purpose of this audit was to determine whether Task Orders 9, 27, and 28 under USAID/West Bank and Gaza's INP I were achieving the program's main goal: to provide essential infrastructure projects for a viable future Palestinian state. Our audit examined 3 of the 44 construction task orders issued under INP I as of December 31, 2010, as well as the management of the construction activities under these task orders. No previous audits addressed the areas reviewed.

The scope of the audit covered reported results for FY 2009 for Task Order 9 and 2010 for Task Orders 27 and 28. RIG/Cairo performed this audit at USAID/West Bank and Gaza between January 27 and March 17, 2011. We met with the construction management contractor, MWH; the construction contractor, AIC; and the construction subcontractor, SAK. We also conducted site visits to the Municipality of Tarqumiya, to the new and rehabilitated water reservoirs in Beit Aula and Tarqumiya in the Hebron Governorate, and to two of the seven pumping stations being rehabilitated in the Bethlehem Governorate. In planning and performing the audit, we assessed internal control related to documentation and data verification, reporting, supervisory and management review, and review of performance measures and indicators.

During our site visits, we relied on USAID/West Bank and Gaza staff as translators to conduct interviews in Arabic with local officials and beneficiaries.

Our audit covered disbursements as of December 31, 2010, for the three task orders audited, totaling \$13,471,317, out of total program disbursements of \$220,804,975.

Methodology

To answer the audit objective, we first identified the program's main goals and significant program risks. We met with key personnel at USAID/West Bank and Gaza, MWH, AIC, and SAK. We reviewed relevant documentation provided by USAID/West Bank and Gaza and the contractors. We also reviewed the terms of the contract, the award process, and applicable policies and procedures. We gained an understanding of the program design and how USAID planned to monitor and measure the results for each task order.

We reviewed compliance by the mission and contractors with Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism," and with USAID/West Bank and Gaza Mission Order No. 21, "Anti-Terrorism Procedures." Our antiterrorism compliance testing included reviews of relevant documentation such as USAID/West Bank and Gaza's contracts with MWH and AIC, the subcontract with SAK, and compliance reviews done by the Office of Contracts Management. We also interviewed the USAID/West Bank and Gaza anti-terrorism vetting specialist.

To verify reported results, we reviewed the indicators being tracked in USAID/West Bank and Gaza's reporting system for the three task orders. We traced the reported results for the indicators to the implementing partner's relevant source documents for FY 2009 and FY 2010. To verify the reported results for the number of job days created, we traced the reported number back to a statistical sample of AIC's daily reports and rejected the originally reported number of job days created as inaccurate. We used this same methodology to conclude with 98 percent confidence that a subsequently corrected summary of job days created submitted to us by AIC was accurate.

We reviewed the definitions of the indicators and evaluated them to determine whether they effectively measured the impact of program activities. We also interviewed the data tracking specialist at USAID/West Bank and Gaza. To assess overall achievement, we interviewed staff members to gain an understanding of reasons for both delays of the task orders and their critical path analysis.

We visited a judgmental sample of four sites. We met with local government officials, engineers, and beneficiaries to gain an understanding of whether the program was meeting their needs and what their experiences had been while working with the contractors. On site, we interviewed subcontractor employees and discussed the quality of the construction. Also during site visits, we verified the existence of reported deliverables, verified that the project site complied with USAID branding requirements, and observed and discussed the quality of the construction and equipment.

MANAGEMENT COMMENTS



UNCLASSIFIED

Date: June 7, 2011

To: Regional Inspector General, Cairo, Jacqueline Bell

From: Mission Director, USAID West Bank and Gaza, Michael T. Harvey /s/

Through: Deputy Mission Director, Sherry F. Carlin /s/

Subject: Mission's Comments on the Draft Performance Audit Report of Selected USAID/West Bank and Gaza Infrastructure Needs Program I Water Task Orders.

Draft Audit Report No. 6-294-11-XXX-P dated May 13, 2011

Reference: Bell/Harvey memorandum dated May 13, 2011

USAID West Bank and Gaza wishes to thank the Regional Inspector General/Cairo for conducting the referenced performance audit on selected task orders under the Infrastructure Needs Program I (INP I). The subject draft audit report has been thoroughly reviewed by the Water Resources and Infrastructure office in collaboration with other offices of the Mission.

The Mission appreciates this opportunity to comment on the draft audit report and the five recommendation therein as the RIG prepares the final report. The following are the Mission's comments on each of the five recommendations.

Recommendation No. 1:

We recommend that USAID/West Bank and Gaza provide detailed definitions of all Infrastructure Needs Program indicators in writing to all partners.

Response: Detailed definitions of all Infrastructure Needs Program (INP) indicators exist in writing in the Mission's "Geo-MIS Standard Definitions for Monthly Activity-level Reporting" document and are accessible to all INP implementing partners. Mission management has recognized the need to further define the indicators, especially the two indicators which were the focus of the draft audit report, "Temporary Job Days Generated" and the "Value of Commodities/Equipment Delivered." The Regional Inspector General's (RIG/C) draft audit

findings indicate that American Intercontinental Constructors, LLC (AIC) was including employment days for two American employees of AIC. This finding merits that the Mission revisit the definitions document with all Infrastructure Needs Program implementation partners. The Water Resources and Infrastructure Office (WRI), in partnership with the Program and Project Development Office (PPD) and INP I implementing partners, already began the process of revising the detailed definitions in late 2010. PPD has proposed certain standard indicators for each type of infrastructure activity. These will better reflect the work we are doing. A revised document has been prepared by PPD and discussed with WRI. It is currently being reviewed for concurrence by MWH Americas, Inc. (MWH). An updated document is expected to be issued by the end of July 2011. The updated document will be provided to all INP implementing partners and discussed with them before the end of August 2011 to ensure that indicator data reported under the INP are calculated in a consistent manner, yielding accurate and reliable results.

Recommendation No. 2:

We recommend that USAID/West Bank and Gaza develop and implement a plan with milestones to establish controls that require indicator data reported under the Infrastructure Needs Program I and Infrastructure Needs Program II are accurate and reliable.

Response: Mission Management has already begun to develop and implement a plan with milestones to establish controls that require and ensure that indicator data reported under the INP I and INP II are accurate and reliable. WRI has been working on this plan from the time that the initial draft of the RIG's report was received in March 2011.

The first step in the plan is the updating of the indicator definitions and the standardization of the methodologies for calculating data reported for all INP indicators, especially the two indicators which were the focus of the draft audit report: "Temporary Job Days Generated" and the "Value of Commodities/Equipment Delivered."

As noted in the response to Recommendation No. 1, WRI has already begun the process of revising and further detailing the indicator definitions in partnership with PPD and all INP implementing partners. An updated "Geo-MIS Standard Definitions for Monthly Activity-level Reporting" document will be issued by the end of July 2011.

By the end of August 2011, WRI and PPD will have met with each INP implementing partner and all new INP II implementing partners to discuss the updated indicator definitions and methodologies.

Controls over INP I data will be implemented primarily by the INP I Architecture and Engineering (A&E) firm, MWH, through the end of September 2011. From October 2011 going forward, controls will be implemented primarily by the INP II A&E firm, Black & Veatch (B&V). Controls will take the form of a spot audit conducted by the A&E firm for all ongoing activities under INP I and future activities under INP II to ensure that the indicator data received by the A&E firm from the other INP I and INP II implementing partners conforms with the updated calculation methodologies that are currently being designed to ensure data accuracy and

reliability. These detailed definitions and calculation methodologies will be defined in the updated “Geo-MIS Standard Definitions for Monthly Activity-level Reporting” document. MWH will conduct the spot audits, document its audit findings and present them to MWH’s COTR by the end of September 2011. An additional spot audit will be conducted by the A&E firm by the end of March 2012, in conformance with the PMP which is currently under development for the INP II. Additional spot audits will be conducted on a quarterly basis for ongoing and future activities under INP I and INP II.

In addition, controls will also be implemented by all INP COTRs in conjunction with other WRI staff. These controls will take the form of a spot audit of a sample of the respective INP A&E firm’s audit findings and other randomly selected data to verify the accuracy and reliability of INP data reported in the Geo-MIS system. The first spot audit will be completed by INP COTRs by the end of October 2011. Additional spot audits will be conducted by INP COTRs on their respectively assigned task orders on a quarterly basis for the duration of these task orders.

INP COTRs will ensure that future reporting is free from any errors in his/her respectively assigned task orders. The respective INP COTR will conduct quarterly spot checks of the accuracy and reliability of indicator data, and, if errors are encountered, will require the implementing partner to correct any such errors and require the A&E firm to re-submit the corrected activity report in the Geo-MIS system.

PPD’s Project Management Specialist M&E will issue a reminder to the WRI COTRs/AOTRs concerning this matter. The reminder will refer COTRs/AOTRs to the relevant sections in their respective COTR assignment letters where data quality responsibilities are identified.

Finally, WRI will work with the Office of Contracts Management (OCM) to ensure that indicator data reporting and quality standards are fully defined in each newly issued INP task orders.

By implementing these control measures, Mission management is confident that indicator data reported under the INP will be calculated in a consistent manner that yields accurate and reliable results that are acceptable and satisfy the above recommendation as raised in the RIG’s draft audit report.

Recommendation No. 3:

We recommend that USAID/West Bank and Gaza verify and correct in writing any errors in the reported results data for the Infrastructure Needs Program.

Response: Reported results data for INP I Task Orders 9, 27, 28, and any other ongoing INP I task orders will be verified and corrected in writing, based on the updated calculation methodologies that are currently under development, as described previously. USAID will make a request to MWH by the end of July 2011 (after the updated “Geo-MIS Standard Definitions for Monthly Activity-level Reporting” is formally issued) to submit a plan by the end of August, 2011 for the verification and correction of previously reported results data for Task Orders 9, 27, 28 and any other ongoing INP I task orders, to be completed by the end of December 2011.

Regarding future task orders, as outlined previously, strict control measures will be applied and monitored stringently by all INP COTRs to ensure accurate and reliable indicator data reporting for all ongoing activities under INP I and future activities under INP II. Controls will take the form of a spot audit conducted by the A&E firm for all ongoing activities under INP I and future activities under INP II to ensure that the indicator data received by the A&E firm from the other INP I and INP II implementing partners conforms with the updated calculation methodologies that are currently being designed to ensure data accuracy and reliability. An additional spot audit will be conducted by the A&E firm by the end of March 2012, in conformance with the PMP which is currently under development for the INP II. Additional spot audits will be conducted on a quarterly basis for ongoing and future activities under INP I and INP II.

INP COTRs will ensure that future reporting is free from any errors in his/her respectively assigned task orders. The respective INP COTR will conduct quarterly spot checks of the accuracy and reliability of indicator data, and, if errors are encountered, will require the implementing partner to correct any such errors and require the A&E firm to re-submit the corrected activity report in the Geo-MIS system. Also, WRI will work with OCM to ensure that indicator data reporting and quality standards are fully defined in each newly issued INP task orders.

Recommendation No. 4:

We recommend that USAID/West Bank and Gaza strengthen results reporting by requiring that program indicators are effective in measuring goal achievements for the Infrastructure Needs Program I and the Infrastructure Needs Program II.

Response: Within the draft Audit Report provided, the RIG identifies the key to future successful results reporting for the INP as (1) the use of both output and impact (outcome) indicators and (2) the preparation and utilization of a performance management plan (PMP) for INP, as well as for all other Mission activities. WRI agrees with the RIG recommendation and will address both key items mentioned above.

For ongoing activities under the INP I, as mentioned in the previous responses, WRI has already begun the process of revising and further detailing the indicator definitions in partnership with PPD and all INP implementing partners. An updated “Geo-MIS Standard Definitions for Monthly Activity-level Reporting” document will be issued by the end of July 2011. By the end of August 2011, WRI and PPD will have met with each INP I implementing partner and all new INP II implementing partners to discuss the updated indicator definitions and methodologies. These revised indicators will ensure that the results reporting for all ongoing INP I activities effectively measures the goal achievements of INP I.

For ongoing and future activities under INP II, a PMP is currently being prepared by B&V, in collaboration with WRI and PPD, and will be finalized by the end of July 2011. The PMP will include approximately ten indicators for INP II as a whole. These will include both output and impact indicators that measure both the results and impacts achieved through INP II activities. Indicators to be included in the PMP will be finalized by the end of July 2011. WRI will ensure

that INP II indicators are of better quality and more thorough in effectively measuring the goals and achievements of the INP.

In addition to program indicators, the PMP will also define the monitoring and evaluation plans in detail, including the identification of data collection responsibilities, a data quality plan, and an evaluation plan. Through this, the PMP will provide a clear method for accurately and efficiently monitoring project results and impacts. Additionally, a final evaluation will occur at the end of the INP II to examine the intended and unintended consequences of the program, identify results achieved through INP II activities, and document lessons that can be shared throughout the Agency to contribute to development learning and improve future programming. This final evaluation will provide a clear picture of the overall impacts achieved through INP II.

Recommendation No. 5:

We recommend that USAID/West Bank and Gaza prepare and approve performance management plans for all mission activity objectives in accordance with Automated Directives System 203.3.3.

Response: The draft audit report makes a recommendation for all mission activity objectives based on an audit of a single mission activity, the INP I program. Lack of an approved PMP at the time of the audit is not indicative of a pervasive issue with PMPs throughout the mission's portfolio and the audit report should recognize that an audit sample of one is insufficient grounds for such a broad, generalized recommendation.

Nevertheless, the Mission will take this opportunity to raise awareness among COTRs/AOTRs of the need to ensure that PMPs are submitted in a timely manner, approved by the COTR/AOTR, and uploaded onto the GEO-MIS system. The Director of the Program and Project Development Office (PPDO) will issue a reminder to the Mission's COTRs/AOTRs concerning this matter by the end of June 2011, outlining their responsibilities and emphasizing the relevant sections of ASDS 203 that should follow as they approve the PMPs under their respective awards.

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