



*Office of Inspector General
for the Millennium Challenge Corporation*

May 31, 2011

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

This letter transmits the Office of Inspector General's final report on the Review of Millennium Challenge Corporation-Funded Contracts with Government-Owned Enterprises in Namibia (Review Report No. M-000-11-005-S). In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II of this report.

This review report contains eight recommendations. We assessed whether selected government-owned enterprises adhered to MCC policies and procedures in the areas of (1) quality construction, (2) environmental protection, (3) worker health and safety, and (4) sound labor practices when implementing MCC compact projects; and whether the Millennium Challenge Account-Namibia adhered to MCC's Program Procurement Guidelines when selecting government-owned enterprises to implement compact projects. We consider that management decisions have been reached on each of the eight recommendations. Final action will occur when MCC provides documentation that the recommendations have been implemented.

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

Sincerely,

/s/

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

SUMMARY

This review is in response to Congressman Frank R. Wolf's September 29, 2010, request to review Chinese government-owned enterprises (GOEs) that receive contracts for Millennium Challenge Corporation (MCC)-funded programs. Congressman Wolf requested that the Office of Inspector General (OIG) review the extent to which Chinese GOEs adhere to health and safety, environmental, quality construction, and labor policies, and whether the procurement process was open, fair, and competitive.

On September 27, 2010, MCC amended its Program Procurement Guidelines (Interim Amendment Notice 2010-001) to prohibit GOEs from competing for MCC-funded contracts.¹ MCC made this amendment to help ensure a level playing field for commercial firms from all countries. Owing to the challenge of determining whether a company is actually government-owned, MCC has identified a process to recognize GOEs if they bid for contracts.

On July 28, 2008, MCC and the Government of Namibia signed a 5-year compact that totaled approximately \$304.5 million to fund programs in the agriculture, tourism, and education sectors. The compact entered into force on September 16, 2009. The compact provides approximately \$145 million to expand and modernize the education sector with new construction and renovation of up to 47 schools at the core of the project. Contractors are now working on the first 13 schools.

The Government of Namibia designated the National Planning Commission (NPC) as the legal entity with the responsibility to oversee, manage, and implement the compact's projects and activities such as allocating resources and managing procurement. The NPC is referred to as Millennium Challenge Account-Namibia (MCA-N).

MCA-N awarded a contract to China Jiangsu International, a Chinese GOE, to provide renovation and construction services at five schools in the Oshana region of Namibia. The contract, signed September 10, 2010, was valued at approximately \$4.6 million. The expected completion date is September 20, 2011.

The objective of the review was to answer the following questions:

- Did the selected government-owned enterprises adhere to MCC policies and procedures that address (1) quality construction, (2) worker health and safety, (3) environmental protection, and (4) sound labor practices when implementing MCC compact projects?
- Did Millennium Challenge Account-Namibia adhere to MCC's Program Procurement Guidelines when selecting government-owned enterprises to implement compact projects?

Based on OIG's review, China Jiangsu International did not always meet requirements for construction quality, worker health and safety, environmental protection, and sound labor practices.

¹ As of September 2010, contracts were awarded to government-owned enterprises that totaled \$400 million (see table in Appendix IV).

With regard to construction quality, OIG observed drainage problems, apparent code violations and poor quality workmanship at the five schools where China Jiangsu International was undertaking construction and renovation. Environmental plans recognized the potential for area flooding, but were insufficient to address heavy rains and large-scale flooding that caused Namibia's president to declare a state of national emergency in the northern part of Namibia this year. OIG observed substantial flooding at two of five schools visited (pages 6–7).

Plans for renovations did not address pre-existing health and building code violations. At one school being renovated, the ceiling was removed and OIG observed a pre-existing safety and building code deficiency. OIG was informed that there was no plan for identifying and correcting pre-existing safety and health violations. Therefore, addressing pre-existing code violations needs more attention, and responsibility for this issue needs to be part of any construction activity and clearly delineated for the supervisory engineer and/or the construction contractor (pages 7–8).

Quality control over masonry needs additional attention. OIG observed poor-quality brick work, which reflected low-skilled workers, communication difficulties with workers that prevented training in good building techniques, and the absence of an adequate quality control plan (pages 8–9).

MCC knew of deficiencies in quality management identified by the OIG team through the report of the independent engineer that MCC hired to perform site visits. Specifically, OIG found that the quality control processes, competency of the foreman and overall construction management were problematic. Furthermore, each problem had been identified as areas requiring attention by the independent engineer during its January 12–13, 2011 site visit and documented in a January 24, 2011, report. As late as the end of March 2011, corrective measures were still pending. Therefore, OIG is recommending corrective action (pages 9–10).

China Jiangsu International's work practices were not compliant with requirements in the environmental management plans (EMPs) which contain requirements for worker protective gear and environmental management. The China Jiangsu International contract with MCA-N required that public health and public safety awareness plans, including HIV/AIDS awareness and prevention plans and EMPs be implemented. However, OIG found that public health and safety training had not occurred (though a consultant was working to address these issues); workers were not wearing proper safety equipment; and EMPs were not in place. Specific environmental problems include improper work camps, potential effects from hostel toilets, and construction debris not removed from school grounds.

China Jiangsu International was not in compliance with contract terms related to the environment and worker health and safety for several reasons. First, company officials noted that (1) the contract contained requirements that were not common in Namibia, and (2) China Jiangsu International had reported to MCA-N in November 2010 that it did not have the capacity to meet the requirements and as a result was hiring advisors to assist with the environmental, and worker health and safety requirements. Second, the supervisory engineer responsible for overseeing China Jiangsu International's work identified construction issues in its early reports, but made little mention of the contractor's implementation of the environmental, health, and safety requirements. The supervisory engineer did not effectively monitor the contractor early on in the project and did not enforce the project's environmental and social terms of the project (pages 10–13).

With regard to China Jiangsu International's labor practices, OIG interviewed all 52 workers on site to obtain information about working conditions. OIG heard numerous complaints from workers about wages below the minimum wage and unpaid overtime. The contract also required China Jiangsu International to observe requirements of the Government of Namibia Notice 129 to the Trades (2009)² which established rates of pay for employees in the construction industry. However, the complaints could not be fully assessed because the records that China Jiangsu International provided in response to the OIG request were not complete or accurate (pages 13–14).

With regard to the second objective on whether China Jiangsu International was awarded the school construction contract in an open, fair and competitive manner, the audit team found no instances of MCA-N's noncompliance with MCC procurement guidance. MCA-N worked with MCC to design the standard bidding documents, which ensured that the documents were complete and compliant with MCC guidelines. MCA-N advertised widely, responded to interested bidders, and held general and on-site briefings. Bids were opened with bidders present, and a quality review was conducted. MCA-N used an independent firm to design the tender, conduct a bid evaluation review, and prepare a report. MCA-N interviewed the firm with the lowest bid to ensure its readiness, as well as to assess its financial and technical capacity to perform on the schedule required. MCC reviewed the selection of China Jiangsu International prior to the award and formally communicated to MCA-N that it had no objection to the selection of China Jiangsu International.

This report contains the following recommendations:

1. Construct new school structures and latrines in appropriate areas of existing school sites and protect them from typical seasonal flooding (page 7).
2. Develop and implement a plan to correct pre-existing building code, safety, and health violations identified during the renovation of school structures (page 8).
3. Remediate the roof of the community-built classroom at the Hashiyana School to comply with South African National Building Standards, as required by the contract (page 8).
4. Improve the quality control processes on-site at various schools, with an emphasis on workmanship (page 9).
5. Develop an action plan to correct deficiencies noted in the independent engineer's report dated January 24, 2011 (page 10).
6. Conduct periodic health and safety reviews, report on risks to worker health and safety, and establish a system of financial penalties and stop work orders to address noncompliance with worker health and safety (page 12).
7. Conduct site inspections to ensure that the contractor is in full compliance with the environmental requirements (page 13).

² The Government of Namibia Notice 129 is an agreement between the Construction Industries Federation of Namibia and the Metal and Allied Namibia Workers Union. MCA-N's contract with China Jiangsu International required the application of the provisions of this agreement.

8. Conduct periodic reviews of China Jiangsu International's payroll system and determine if workers are receiving the wages specified in the 2009 memorandum of agreement (page 14).

Management decisions have been reached on each of the eight recommendations. Final action will occur when MCC provides documentation that the recommendations have been implemented. Detailed results of this review appear in the following section. Appendix I contains the scope and methodology.

RESULTS OF REVIEW

MCC Needs To Improve Quality of Infrastructure Projects

During visits to Millennium Challenge Corporation's (MCC) school construction and renovation project sites, the Office of Inspector General (OIG) observed the following three areas where the execution of the school projects could be improved to better ensure the long-term sustainability of the schools:

- Drainage around new school buildings and latrines was not always sufficient to prevent flooding caused by heavy rains.
- School renovation statements of work did not require the contractor to identify and address pre-existing health and building code deficiencies.
- Masonry workmanship was of poor quality.

Each of these areas is discussed in more detail below.

Drainage was insufficient around buildings and latrines

The Oshana region of Namibia, the location of the five schools OIG visited for this review, experiences heavy rains yearly from January through March. This year, however, the reported rainfall was nearly double the normal average and caused Namibia's president to declare a state of national emergency in the northern part of Namibia. The most severe flooding included the region where China Jiangsu International was working.

To address the risk of flooding, good engineering practice calls for new buildings to be sited in a location that is not prone to flooding and where the potential for water undercutting of the structure is avoided. In addition, building sites should be graded to allow water to move away from any structure. The South African Building Standards³ 0400 building code specifically requires in Part F that "where any building is to be so situated that water will drain naturally towards it, drainage shall be provided to direct water away from such site or building."

Although construction designs should address flooding and drainage issues, OIG observed substantial flooding at two of five school sites. For example, a new school building under construction at the Olukolo school was completely surrounded by floodwater. New latrines at the Ondjora school were also flooded. Construction of buildings in flood-prone areas is a questionable investment of MCC funds as the buildings may have a short life and may be unusable for long periods of time and unsafe.

Design studies prepared during project planning recognized the potential for flooding at each school site, but as described above, the plan to address the annual flooding problem was inadequate. Site grading plans, which would have required the construction contractor to regrade the site to direct water flow away from the new buildings, were not included in the contractor's contract. Instead, according to a review of various design documents and after consultations and analysis, the plan adopted to address the potential for flooding was to build

³ The contract for design states that it must conform to South African Building Standards.

the new construction on the highest ground at each school site and to provide concrete aprons around the buildings to “mitigate the risk of collapse due to undercutting by storm water.”



OIG visited schools during the annual flood season. This year new records were set for flooding in the north-central region of Namibia. A new building at the Olukolo School (left) and new latrines at the Ondjora School (right) were surrounded by water. (Photos by OIG, March 2011)

The effect of constructing a building in an area with a potential for flooding is an issue of long term sustainability, structural soundness, safety, and health. The risk of repeated flooding is also a concern given that a flood emergency was also declared for the area 2 years earlier in 2009. To reduce the risk of flooding in future school construction projects, site-specific grading plans should be prepared and provided to the construction contractor for implementation. To reduce the risk of flood damage to MCC-funded schools OIG is making the following recommendation:

Recommendation 1. We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to make sure that new MCC school structures and latrines are constructed in an appropriate area on existing school sites and are protected from typical seasonal flooding. New structures should require some site-specific grading designs be included in future school infrastructure to alleviate concerns regarding water damage and seasonal flooding.

Pre-existing health and building code deficiencies were not addressed

Renovation work on existing school facilities is difficult to specify because the scope of work is dependent on the condition of each building. Further, to determine the full scope of renovation work requires a detailed review of the facility and a detailed description and quantity list, but some building areas are not accessible for review until after the contractor removes a ceiling or wall. Once these new areas of renovation are exposed for review, it is our opinion that if any safety, health or building code deficiencies are identified that appropriate actions should be taken to correct any safety, health, or building code deficiencies before the work is covered up. However, during a visit to the Hashiyana School, OIG visited a community-built classroom that was being renovated. The classroom’s ceiling was in the process of being replaced, and the roof supports and rafters were exposed. OIG observed large spaces between the roof supports

and determined that the excess distance between the roof supports was a safety and building code deficiency because it increased the risk that the supports may not hold the classroom's roof. The supervisory engineer confirmed that the roof supports were incorrectly spaced.



OIG visited the Hashiyana School where some classroom ceilings were to be replaced. In one classroom, the ceiling was removed and roof supports were visible. OIG's engineer questioned whether the supports met code requirements. Renovation plans did not include considerations for meeting code requirements.

(Photo by OIG, March 2011)

Although the classroom's roof was a safety issue and did not comply with applicable building code (South African National Building Standards), remediation of the roof's deficiencies had not been included in the renovation work. This occurred in part because the deficiencies in the classroom's roof support were not exposed until the old ceiling tiles had been removed and in part because there was no process to address building code violations encountered during renovation work.

Long-term sustainability principles and good building practices require that the owner remedy problem areas and code deficiencies during renovation work prior to covering up the work. Consequently, OIG recommends that during renovation work of existing structures, qualified field staff confirm the condition of the buildings in which they are working and that steps be taken to remedy health, safety, or building code deficiencies. These responsibilities should be clearly delineated for the supervisory engineer and/or the construction contractor.

MCC has directed the supervisory engineer to correct the building code deficiencies in the Hashiyana School after the OIG visit. MCA-N has also taken measures to reinforce oversight in this area and has instructed the supervisory engineer "to take the lead on identifying any such violations" in the future. As a result, this audit makes the following recommendations:

Recommendation 2. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to develop and implement a plan to correct pre-existing building code, safety, and health violations identified during the renovation of school structures.*

Recommendation 3. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to remediate the roof of the community-built classroom under renovation at the Hashiyana School to make it comply with applicable South African National Building Standards, as required by the contract.*

Masonry workmanship was of poor quality

The quality control of China Jiangsu International's operations needs greater attention, particularly the oversight of workmanship and subcontractors. The masonry workmanship for several new buildings was of poor quality and a visual inspection clearly showed brickwork

joints that were not level in places, joint thicknesses that were not uniform, and mortar joints with exposed gaps that were not properly filled. Further, because most of the exterior walls will not receive a smooth finishing coat and paint to cover the brickwork, the exposed exterior walls' appearance will be less than favorable. The deficiencies are examples of substandard workmanship and an indication that the workers were not properly supervised or were unqualified as bricklayers.

**Although not representative of the overall project, OIG did observe instances of poor quality workmanship as shown here. OIG concluded that poor workmanship had several causes but that setting quality control processes and standards could deliver more uniform workmanship at each location.
(Photo by OIG, March 2011)**



The poor quality workmanship was caused in part by communication problems between China Jiangsu International's foreman and workers and subcontractor personnel at the school. These problems contributed to an environment where work was not properly controlled and the training of workers was difficult. The poor workmanship was also caused by China Jiangsu International's lack of a clear quality control plan. Deficient work is identified and corrected only after site visits. This process creates an environment where poor workmanship is accepted and corrective actions can only be taken only after the work is rejected.

Recommendation 4. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to improve its quality control processes on-site at the various schools, to improve all subcontractors' work and to ensure that China Jiangsu International provides reasonably good workmanship.*

Deficiencies Reported in Independent Engineer's Report Need to Be Addressed

The OIG team interviewed all available project participants, a total of 52 employees, during the project visit and made a concerted effort to independently verify the conditions at each of the project sites. The inspection team received a copy of the independent engineer's report dated January 24, 2011, and noted that the report addressed many of the same issues that troubled the OIG team. As this report was produced earlier than the OIG project site visits, measures should have been taken to correct the deficiencies noted in the report. However, during the site visit in March 2011, the OIG team did not observe that critical actionable items identified in the independent engineer's report had shown much improvement in the areas of quality control, competency of the foreman, and construction management. Therefore this audit makes the following recommendation:

Recommendation 5. *We recommend that the Millennium Challenge Corporation develop an action plan to implement corrective measures to address the deficiencies noted in the Independent Engineer's Report dated January 24, 2011.*

Worker Health and Safety and Environmental Requirements Need Additional Oversight

MCA-N has an oversight model in place that includes on-site supervision of the contractor by a resident engineer; monthly occupational safety, health and environmental reports from the contractor; and monthly reports from a supervisory engineer. However, despite these controls OIG observed numerous violations of health and safety, environmental, and labor compensation requirements. OIG also found problems with the contractor's wage payments and payroll records that had not been reported to MCA-N or MCC. These issues are discussed in greater detail below.

Worker health and safety

The June 2009 memorandum of agreement (MOA) between the Construction Industries Federation of Namibia (CIF) and the Metal and Allied Namibian Workers Union (MANWU)⁴ requires the contractor to issue protective equipment to all categories of workers. Further, FIDIC⁵ requirements, section 6.7, require the contractor to provide medical facilities, appoint an accident prevention officer, and report accidents.

In addition to the above requirements, the contract required China Jiangsu International to adhere to a health and safety plan, which included requirements to provide protective equipment and health and safety training, report accidents, and comply with local laws. However, regarding compliance with health and safety requirements contained in Namibian Labor Law, FIDIC, and the contract, OIG found that—

- Workers lacked protective equipment, and some workers reported that protective equipment was issued within days of OIG's arrival. OIG also observed four workers wearing flip-flop type shoes, and one worker was observed welding with the use of sunglasses for eye protection.
- Workers lacked first aid equipment or a medical treatment facility.
- Most workers had no health and safety training (fewer than 10 percent had received training from the contractor).
- Work site conditions were unsafe for the public (including schoolchildren) and workers, lacked of appropriate barriers to protect the public at all four locations, and had an open excavation at one location.
- Worker injuries were not reported. Four workers reported having suffered injuries, while none were reported by the contractor. Further, four workers reported that as many as 10 tenth-graders worked at one location during a holiday break and one had injuries that

⁴ The 2009 MOA, Section 4, requires that minimum protective clothing including overalls, hard hats, gum boots, safety boots, and rain protection be provided free to all worker categories.

⁵ The International Federation of Consulting Engineers (Fédération internationale des ingénieurs-conseils or FIDIC), is an organization that represents and establishes standards for the engineering industry worldwide.

required medical treatment. The supervisory engineering firm acknowledged that it was not present during the holiday break period of December 15, 2010, through January 15, 2011.



This photo documents conditions reported by supervisory engineer prior to the OIG visit. OIG also observed workers without protective equipment and open trenches without barriers. (Photo by supervisory engineer, December 2010)

Workers with inappropriate shoes: brown canvas tennis shoes, Crocs, and open-toed sandals. (Photo by OIG, March 2011)



Without the required personal protective equipment, workers could suffer injuries that could delay the project and/or adversely affect the quality of work.

China Jiangsu International and others familiar with the building industry in Namibia stated the safety and health requirements in the MCA-N contract are not common. China Jiangsu International reported to MCA-N in November 2010 that it did not have the capacity to meet the requirements and as a result was hiring advisors to assist with the environmental, and worker health and safety requirements. The supervisory engineering firm identified construction issues in its early reports, but made little mention of the contractor's implementation of the environmental, health, and safety requirements.

MCA-N performed its own site inspection in December 2010. MCA-N identified noncompliance with health and safety plans and took action in a letter dated January 14, 2011, to notify the supervisory engineering firm of the need to increase the effectiveness of its site inspections. MCA-N also sent a second letter to the engineering firm, dated February 1, 2011, citing the unacceptable performance regarding compliance with the environmental management and the

public health and safety plans. In addition, MCC withheld more than \$667,928 from the initial payment to the contractor because the public health and safety plan had not been implemented. Although MCA-N and MCC have taken action to address the health and safety violations, MCA-N needs to conduct more site visits to ensure compliance with health and safety requirements.

Recommendation 6. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to conduct periodic health and safety reviews and document in a report any risks to worker health and safety on the sites, and institute a system of financial penalties and stop work orders as necessary to safeguard workers.*

Environmental management plans

Requirements for the protection of the environment as well as worker health and safety are specified in site-specific EMPs. The contract with China Jiangsu International specifically, subclause 4.18, requires the contractor to apply the recommendations of the EMPs.

Regarding environmental requirements, OIG found—

- **Improper work camps at two of the four locations.** EMPs require that worker campsites be at least 1 kilometer from the school and should be fenced off to restrict access by children.
- **Potential negative environmental effects from worker hostel drop toilets.** EMPs require separate portable toilets for men and women workers, who should not be allowed to use school facilities. The supervisory firm’s resident engineer stated that workers were currently using the school’s water and toilet facilities at one school.
- **Construction debris not removed from site.** EMPs require the prompt removal of construction debris from school grounds. The audit team observed construction debris at one school location.



**Worker camp (metal structure and tents), located next to school.
(Photo by OIG, January 2011)**



**Single worker camp toilet
approximately 200 meters from camp
in the rear of the photo.
(Photo by OIG, January 2011)**

China Jiangsu International and others familiar with the building industry in Namibia stated that the environmental requirements in the contract and the local laws are not commonly acknowledged or enforced in Namibia. MCA-N stated that it was gearing up to meet the

requirements and that a process to force compliance was in place. Further, MCA-N was committed to correcting the issues identified by the OIG.

OIG met with officials of the Ministry of Environment and Tourism, which is responsible for approving the EMP. The officials stated that they are engaged in the success of the project and would participate with MCA-N in a future site visit. They believed that additional monitoring of the environment was needed and suggested that an environmental specialist should also be on site to address the problems identified.

Without effective early monitoring and enforcement of the environmental requirements, the public, including schoolchildren, could be adversely affected by unsafe conditions and health hazards such as polluted water from drop toilets.

Recommendation 7. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to conduct site inspections to ensure that the contractor is in full compliance with the environmental requirements.*

Worker wages

The June 2009 MOA between the CIF and the MANWU contains minimum salary rates for various worker titles. The overtime pay requirement in the Namibia Labor Act of 2007 and requires the employer to pay an employee for each hour of overtime worked at a rate at least one and one-half times the employee's hourly basic wage. The law also requires a payment of twice the hourly wage for work on Sundays. China Jiangsu International's contract, subclause 6.2, specifically requires compliance with the labor rates in the 2009 MOA. Because of the country's high unemployment rate, Namibian workers are vulnerable to exploitation since work is highly sought after.

OIG found that China Jiangsu International, along with its subcontractor Cereto, did not comply with requirements to pay workers the minimum wage and overtime. Because of the poor state of China Jiangsu International's records, the OIG team was unable to identify any of its 17 workers and the amounts they were paid for January 2011.⁶ Further, a review of records provided by Cereto found that workers were not paid the minimum rates required and nearly all were not paid for overtime. Of the five workers on Cereto's payroll who were identified as working on site during the OIG visit, the subcontractor's records showed that all five were under paid—one worker was paid N\$3 per hour, 68 per cent below the minimum hourly rate of N\$9.65⁷ (approximately US\$1.40). Further, all 51 laborers who were interviewed reported working overtime with 44 workers reporting that they were not paid for the overtime worked.

According to China Jiangsu International officials, the requirements were being met and that all workers were paid in compliance with the MOA. However, the resident engineer stated that he had not received the payroll records for review after repeated requests to the contractor.

⁶ Although the review team requested payroll records from November 2010 through January 2011, China Jiangsu International and its sub-contractor provided records only for January 2011.

⁷ The exchange rate as of April 13, 2011, is approximately US\$1 = N\$6.69.

Payroll records

China Jiangsu International's contract, subclause 6.14, states that “the contractor must keep complete and accurate employee records of employment of labor at the site. This includes the names, age, gender, hours worked, and wages paid for all workers. These records shall be summarized and submitted to the engineer on a monthly basis.” The requirements also state that the records “shall be available for inspection by auditors during normal working hours.” Further, the EMP states that the contractor must adhere to the regulations pertaining to health and safety—including the provision of protective clothing—failing which the contract may be ended with immediate effect. The EMP also requires the contractor to maintain records to confirm the issuance of protective equipment to workers.

OIG found that China Jiangsu International did not keep complete and accurate payroll records as required by the contract. The records provided to the team were handwritten, and did not include employee full names or other means of employee identification. The records were not legible and were not provided in a timely manner—they were delivered to the team on the evening of its departure from the site after repeated requests to the contractor.

Furthermore, the supervisory firm did not receive the required monthly payroll summaries from the contractor, as required by the contract.

According to China Jiangsu International officials, all contract requirements were being met. They stated that all workers are paid within the requirements and that although China Jiangsu International issued protective equipment to the workers, the workers do not want to leave the gear at the worksite so they take it with them. If the workers do not return, the gear is gone.

MCA-N is responsible for ensuring the full implementation of MCC-funded activities and compliance with MCC requirements. MCA-N's contract with the supervisory firm for construction supervision did not include a specific requirement for review of contractor record-keeping. Without complete and accurate payroll and other records, there is no assurance that the contractor is complying with contract provisions and local laws. Further, because the payroll records are in Chinese, workers can not determine if they are being paid fairly. For example, one worker interviewed provided a payroll receipt that was written in Chinese, which the worker said he could not read or understand it.

Some of these problems were identified prior to OIG's site inspections, and at the time of the OIG visit, MCA-N was trying to resolve most of the problems observed by working with the supervisory engineer. For example, MCA-N conducted a site inspection and produced a report in January 2011. Following that report, MCA-N sent two letters to the supervisory engineer identifying work deficiencies and demanding improved supervision of and improved performance by China Jiangsu International. However, the expected improvements in supervising the contractor have not yet materialized. Additional supervision and oversight of the contractor will help ensure that contract requirements are fully implemented. For these reasons, this review makes the following recommendation.

Recommendation 8. *We recommend that the Millennium Challenge Corporation require Millennium Challenge Account-Namibia to conduct periodic reviews of China Jiangsu International's payroll system and determine whether workers are receiving the wages specified in the 2009 memorandum of agreement.*

EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation (MCC) provided written comments on the draft report that are included in their entirety in Appendix II of this report. In its comments, MCC agreed with each of the eight recommendations.

MCC agreed with Recommendation 1 and will continue to implement appropriate water damage and flood mitigation measures to protect MCC investments for the design life of the projects. Such efforts will include ensuring that the design, building materials, and skirting for the structures are protected against water damage and flooding and a design change to install self-contained toilet systems on higher ground. On the basis of MCC's plans to mitigate flood risk and water damage from season flooding, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides evidence that it is mitigating the risk of flooding at new MCC school structures.

MCC agreed with Recommendation 2 and will work with MCA-Namibia to develop a plan by July 1, 2011, to remedy code violations that impact MCC investment. On the basis of MCC's decision to work with the MCA-N to develop a plan to address code violations in school buildings being renovated with MCC funds, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides additional documentation that MCA-N has created the plan to address code violations.

MCC agreed with Recommendation 3 and has provided funding to MCA-N to remediate the roof at the Hashiyana School. In addition, MCA-N has authorized China Jiangsu International to modify the roof and its support structure. On the basis of MCC actions and plans to complete the repairs by August 1, 2011, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides documentation that the roof repair has been completed.

MCC agreed with Recommendation 4 and stated that with MCC direction, MCA-N has taken steps to improve its oversight of the quality control processes including (1) requiring the supervisory engineer to maintain a quality control register for all school sites, (2) increasing oversight by quality control staff, and (3) directing the supervisory engineer to accept only work that meets appropriate standards. On the basis of MCC's actions, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides documentation that MCA-N has improved its oversight of quality control processes.

MCC agreed with Recommendation 5 and confirmed that deficiencies in the independent engineer's report dated January 24, 2011, have been corrected. MCC also stated it will work with MCA-N to ensure that deficiencies do not reoccur. On the basis of MCC's actions, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides documentation that deficiencies in the independent engineer's report have been corrected.

MCC agreed with Recommendation 6. MCC stated that it has worked with MCA-N to institute measures to address future health and safety risks and that MCA-N has increased

its health and safety reviews, required the supervisory engineer to increase monitoring of Public Health/Public Safety Awareness Plans (PHPSAP), and instituted a system of financial penalties to withhold progress payments in the case of inadequate PHPSAPs. On the basis of MCC actions, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides evidence that health and safety reviews are being performed by the supervisory engineer and MCA-N, worker health and safety risk reports are being prepared, and a system of financial penalties and stop work orders related to worker health and safety has been developed.

MCC agreed with Recommendation 7 and stated that MCA-N has increased its field periodic site inspections related to environmental and social conditions at school sites and hired additional environmental and social assessment staff and the independent engineer will also increase its oversight. In addition, MCC stated it has increased the frequency of its field visits. On the basis of MCC actions, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides evidence that MCA-N is conducting site inspections to ensure compliance with environmental requirements.

MCC agreed with Recommendation 8 and stated that it will work with MCA-N to implement periodic reviews by the supervisory engineer of the contractor's payroll system, reporting, and recordkeeping. The review will address compliance with wage and labor-related provisions in China Jiangsu International's contract. In addition, MCC stated MCA-N has already conducted an initial review of the contractor's payroll system and it was following up on deficiencies noted during the review. On the basis of MCC's actions, OIG considers that a management decision has been reached. However, final action will not occur until MCC provides evidence that MCA-N has conducted a review of the payroll system and wages paid.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General (OIG) conducted this review as a response to Congressman Frank R. Wolf's September 29, 2010, request to review Chinese government-owned enterprises that receive contracts for Millennium Challenge Corporation (MCC)-funded programs. To put the results in a broader context, OIG expanded the review to other government-owned enterprises that received infrastructure contracts for MCC-funded programs. Congressman Wolf had four specific areas of concern regarding the contractors' compliance with MCC policies and procedures: (1) health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices. He also asked whether the procurement was open, fair, and competitive.

Although this review was not an audit, we conducted it in accordance with *Government Auditing Standards*, July 2007 Revision (GAO-07-731G) specifically, Chapter 3 and Chapter 7, Sections 7.55 and 7.72 to 7.79. We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

OIG conducted its fieldwork for this review from November 15, 2010 to April 15, 2011 at MCC's headquarters in Washington, DC, with site visits to Namibia from January 24 to February 4, 2011, and March 22 to 25, 2011. OIG selected Namibia because it had a compact-funded government-owned enterprise (GOE) that had a contract totaling US\$4.6 million and the contract is in the implementation stage. However, because the request focused specifically on government-owned enterprises that received MCC funds, the OIG did not review private sector companies implementing MCC projects.

Methodology

The review team met with MCC staff in Namibia and in Washington, DC. In Namibia, the team reviewed the procurement process to determine whether MCA-N selected GOEs based on open, fair, and competitive bidding practices. In addition, the review team interviewed all 52 China Jiangsu International employees at the four schools visited.

The team also reviewed documents and assessed, through observations and interviews, whether China Jiangsu International adhered to MCC policies and procedures that address (1) quality construction, (2) worker health and safety, (3) environmental protection, and (4) sound labor practices when implementing MCC compact projects; and whether MCA adhered to MCC's Program Procurement Guidelines when selecting GOEs to implement compact projects.

OIG fieldwork was conducted by two teams. The first team assessed practices related to procurement, environment, safety, health, and labor and interviewed China Jiangsu International officials and workers at four of the five schools under the contract (Enguwantale, Hashiyana, Okukolo, and Ondjora). The second team, which included a professional engineer, focused on construction process, oversight, and quality at all five sites in the China Jiangsu International contract: Enguwantale, Hashiyana, Okukolo, Ondjora, and Onamautai.

OIG, working with interpreters to accommodate the local language, interviewed all workers. OIG used the same set of questions for all worker interviews in all countries in the GOE review to ensure uniform approaches and uniform data collection. (Appendix III contains the results of worker interviews).

To answer the objective questions, the team—

- Interviewed the supervisory engineer and resident engineer responsible for overseeing the school infrastructure project, reviewed the oversight requirements and supervisory engineer reports, and visited the school sites accompanied by the resident engineer.
- Interviewed local and expatriate staff (52 workers) working on the construction sites to learn about their experiences working for the GOE.
- Performed document reviews of worker wage records, correspondence, contracts, and oversight reports, among other things.
- Reviewed procurement documents to determine whether the selection met MCC guidelines.
- Engaged an engineer to review the quality of construction, and supervisory processes to ensure that substandard materials were not used in the MCC projects.
- Examined biweekly reports submitted by the supervisory engineer which provide a review of the quality of materials and the quality of construction works.
- Examined the quarterly reports submitted by MCC's independent engineer.
- Interviewed professionals at MCC, MCA-N, the Government of Namibia, and construction industry trade organizations.

MANAGEMENT COMMENTS



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE: May 23, 2011

TO: Mr. Alvin Brown, Assistant Inspector General
Millennium Challenge Corporation

FROM: Mr. Patrick C. Fine, Vice President /s/
Department of Compact Operations
Millennium Challenge Corporation

Dear Mr. Brown:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the Office of Inspector General's (OIG) draft report entitled "Review of Government Owned Enterprises in Namibia" (Report No. M-000-11-00X-S). In addition to providing a response to the audit recommendations, this serves as MCC's management decision.

MCC's specific responses to the eight recommendations in the draft report are detailed below.

Recommendation 1: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to make sure that new MCC school structures and latrines are constructed in an appropriate area on existing school sites and are protected from typical seasonal flooding. New structures should require some site-specific grading designs be included in future school infrastructure to alleviate concerns regarding water damage and seasonal flooding.

MCC Response: MCC agrees with the recommendation.

MCC agrees that the school sites should be properly constructed and engineered to reduce flood risk and water damage from seasonal flooding. MCC has taken the necessary steps to guard against both events, and will do so in the future. MCC notes that the standing water observed by the OIG during site visits was caused by extraordinary flooding, the worst in Namibia's recorded history, which exceeded any reasonable and affordable threshold of risk mitigation actions as well as any previously-recorded water levels. MCC will continue to implement appropriate

water damage and flood mitigation measures to protect MCC's investments for the design life of the projects. Such efforts include ensuring that the design, building materials, and skirting for the structures protect against water damage and flooding, and a design change to installing self-contained toilet systems on higher ground to mitigate risks associated with water pollution from high water tables.

Recommendation 2: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to develop and implement a plan to correct pre-existing building code, safety, and health violations identified during the renovation of school structures.

MCC Response: MCC agrees with the recommendation.

MCC funded school renovation work should comply with local building, health and safety codes. MCC will work with MCA-Namibia to develop a plan for remedying identified instances of code violations in cases when the sub-standard condition is connected to or may impact MCC's investment. MCC will ensure that this plan is finalized by July 1, 2011. In resolving this issue, MCC will work with the Ministry of Education, who has responsibility and possession of the schools, to remedy such code violations. MCC is committed to the sustainability of our programs to ensure maximum impact of our investment.

Recommendation 3: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to remediate the roof of the community-built classroom under renovation at the Hashiyana School to make it comply with applicable South African National Building Standards, as required by the contract.

MCC Response: MCC agrees with the recommendation.

Using MCC funding, MCA-Namibia has already begun work to rebuild the roof in the classroom under renovation so that it complies with building codes. MCA-Namibia has received a variation order from the supervisory engineer for this remediation, which should be processed by June 1, 2011. MCC expects that the repairs to the roof will be completed by August 1, 2011.

Recommendation 4: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to improve their quality control processes on-site at the various schools, to improve all subcontractors work and to make sure that China Jiangsu International provides reasonably good workmanship.

MCC Response: MCC agrees with the recommendation.

MCC endeavors that all projects demonstrate a high level of quality and workmanship. Both are critical to ensuring the long term viability and sustainability of MCC funded projects and works. With MCC direction, MCA-Namibia has already taken multiple steps to improve the oversight of quality control processes at all of the existing school expansion and renovation sites, including

the following: (a) requiring the supervisory engineer to maintain a quality control register for all sites; (b) increasing the number and frequency of visits of quality control staff that oversee the school sites; and (c) ensuring that the supervisory engineer only accept work that meets appropriate standards or to require remediation efforts so that the work will meet those standards.

Recommendation 5: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations develop an action plan to implement corrective measures to address the deficiencies noted in the Independent Engineer's Report dated January 24th, 2011.

MCC Response: MCC agrees with the recommendation.

MCC has already confirmed that the deficiencies noted in the independent engineer's report, dated January 24, 2011, have been corrected. MCC will work with MCA-Namibia to require that the independent and supervisory engineers continue to ensure that those deficiencies remain corrected and do not arise again.

Recommendation 6: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to conduct periodic health and safety reviews and document in a report any risks to worker health and safety on the sites and institute a system of financial penalties and stop work orders as necessary to safeguard workers.

MCC Response: MCC agrees with the recommendation.

MCC is committed to the monitoring and oversight of the health and safety of workers under MCC funded contracts. MCA-Namibia has already increased its health and safety reviews, and has required that the supervisory engineer increase its monitoring of the Public Health/Public Safety Awareness Plan (PHPSAP). Work stoppage orders have been issued in cases of non-compliance with the PHPSAP. MCC has also worked with MCA-Namibia to institute measures to further mitigate future health and safety risks, including implementing additional health and safety safeguards and compliance requirements in works contracts, and a system of financial penalties to withhold progress payments to contractors in cases of inadequate PHPSAP implementation.

Recommendation 7: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations requires Millennium Challenge Account-Namibia to conduct site inspections to ensure that the contractor is in full compliance with the environmental requirements.

MCC Response: MCC agrees with the recommendation.

MCA-Namibia and the supervisory engineer have already increased their periodic site inspections to ensure CJI complies with its environmental requirements. MCA-Namibia has also hired additional environmental and social assessment staff so that field inspection visits can be carried out more frequently. MCC has also increased the frequency of its field visits and visits of the independent engineer to monitor CJI's compliance.

Recommendation 8: We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Namibia to conduct periodic reviews of China Jiangsu International's payroll system and determine whether workers are receiving the wages specified in the 2009 Memorandum of Agreement.

MCC Response: MCC agrees with the recommendation.

MCC will work with MCA-Namibia to implement periodic reviews of CJI's payroll system and related reporting and record keeping. This review, which will be conducted by the Supervisory Engineer, will determine the contractor's compliance with the MOA and other labor-related provisions in CJI's contract. MCA-Namibia has already conducted an initial review of CJI's payroll record-keeping, and noted a number of continuing deficiencies. MCA-Namibia is currently following up with CJI on these deficiencies to protect against future violations of CJI's contract and to ensure compliance with the MOA. MCA-Namibia has also instructed the supervisory engineer to monitor CJI's compliance with its payroll and record-keeping obligations in accordance with the requirements of the supervising engineers contracted oversight responsibilities.

The actions specified above constitute management decision for all eight of the above recommendations. If you have any questions, please contact Pat McDonald, MCC Compliance Officer, at 202-521-7260.

**Namibia - Summary of responses of all
China Jiangsu International employees working at four school sites**

Number of workers = 52.

Questions	Number of Employees Who Responded	Percentage Results
Number of employees who work overtime	51	98%
Number of workers who do not work overtime (This person held a salaried position)	1	2%
Number of employees who received all overtime pay	4	8%
Number of employees who did not receive overtime pay	43	84%
Number of employees who were not sure if they were paid for overtime	4	8%
Number of employees reporting personal medical expenses paid by the employer	0	N/A
Number of employees for which this does not apply ⁸	52	100%
Number of employees who wear safety gear	47	90%
Number of employees who do not wear safety gear	5	10%
Number of employees who wear safety gear every day	47	90%
Number of employees who do not wear safety gear every day	4	8%
Number of employees who attended health and safety training	5	10%
Number of employees who did not attend health and safety training	47	90%
Number of employees who did not have accidents	48	92%
Number of employees who had accidents	4	8%
Number of employees aware of accidents on the site ⁹	12	23%

⁸ Workers reported experiencing injuries that were treatable on site. For example, workers had cuts on their hands from handling bricks. These workers had no gloves and there were no first aid supplies on site to treat the injuries. None of the workers interviewed stated that their injuries required more than first aid.

⁹ Several workers reported the same accident experienced by another worker no longer employed at the site.

Government Owned Enterprises Awarded MCC-Funded Contracts

MCA Country ¹⁰	Company Name	Nationality of Company	Value of Contract Award
Benin	GTZ	Germany	\$ 11,969,525
Burkina Faso	GTZ	Germany	\$ 9,628,943
Georgia	Oil & Gas Construction Trust	Azerbaijan	\$ 6,345,230
Georgia	Khazardenizneftgastikinti Trust	Azerbaijan	\$ 8,358,967
Georgia	Khazardenizneftgastikinti Trust	Azerbaijan	\$ 4,679,535
Georgia	Oil & Gas Construction Trust	Azerbaijan	\$ 2,806,440
Ghana	China Railway Wuju Corporation	China	\$ 42,168,601
Ghana	Arab Contractors, Osman Ahmed Osman & Co	Egypt	\$ 9,484,800
Madagascar	GTZ	Germany	\$ 3,415,396
Mali	SinoHydro	China	\$ 71,619,477
Mali	SinoHydro	China	\$ 46,328,142
Namibia	GTZ	Germany	\$ 7,826,423
Namibia	China Jiangsu International Ltd	China	\$ 4,587,734
Tanzania	SinoHydro	China	\$ 53,131,189
Tanzania	SinoHydro	China	\$ 59,845,418
Tanzania	China New Era	China	\$ 57,050,577
Total			\$ 399,246,397

Source: MCC. Non-audited data.

¹⁰ OIG selected MCA countries in which Chinese GOEs were implementing MCC infrastructure projects (Ghana, Mali, Namibia, and Tanzania). For these countries, OIG also reviewed infrastructure works by government-owned firms in addition to the Chinese government-owned firms. For Namibia, the only government-owned firm that was implementing infrastructure works was owned by the Government of China.

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