



OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION- FUNDED PROGRAM IN NAMIBIA

AUDIT REPORT NO. M-000-14-002-P
DECEMBER 17, 2013

WASHINGTON, D.C.



Office of Inspector General

December 17, 2013

Mr. Kamran Khan
Vice President, Department of Compact Operations
Millennium Challenge Corporation
875 15th Street NW
Washington, DC 20005

Dear Mr. Khan:

This letter transmits the Office of Inspector General's *Audit of the Millennium Challenge Corporation-Funded Program in Namibia*. 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.

The report contains eight recommendations to strengthen the Millennium Challenge Corporation-funded program in Namibia. We acknowledge MCC's management decisions on all eight recommendations and final action on Recommendations 1, 2, 3, 5, 6 and 8.

We appreciate the cooperation and courtesy extended to our staff during this audit.

Sincerely,

/s/

Robert L. Fry
Acting Deputy Assistant Inspector General
for Audit
Millennium Challenge Corporation

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SUMMARY OF RESULTS

The Millennium Challenge Corporation (MCC) signed a 5-year, \$305 million compact with the Republic of Namibia in 2008. The compact aims to reduce poverty and stimulate economic growth through three projects totaling \$262 million:¹

- The Education Project (\$142 million) seeks to improve the effectiveness, efficiency, and quality of Namibia's education sector through systematic reforms and interventions. The project involves renovating 47 schools and providing more than 1 million new textbooks to students across the country.
- The Tourism Project (\$68 million) aims to improve the management and infrastructure of Etosha National Park, enhance the marketing of Namibian tourism, and develop the capacity of communal conservancies.
- The Agriculture Project (\$52 million) attempts to increase the economic performance of the agriculture sector by strengthening the land tenure system, introducing improved rangeland management practices, and improving livestock production and sales.

The Millennium Challenge Account-Namibia (MCA-N) is the host-government entity charged with implementing the terms of the compact. The compact entered into force in September 2009 and will end in September 2014. As of June 2013, MCA-N had committed approximately \$251 million (82 percent) of the Namibia compact.

The objective of this audit was to determine whether the MCC-funded Education and Tourism Projects in Namibia were achieving their compact goals. The Office of Inspector General (OIG) found the projects were achieving their goals, as detailed in the table on the following page, but MCC and MCA-N could improve the projects' implementation, as discussed in the findings.

¹ The remaining compact funds are primarily for program administration.

Project Goals and Achievements (not audited)

Primary Project Goals	Achievements Reported by MCA-N as of June 2013
1. Renovate 47 schools	23 schools completed; remainder to be completed by November 2013
2. Renovate 9 Community Skills and Regional Development Centers	Projected completion of 8 by October 2013; last facility by August 2014
3. Establish a National Training Fund to award grants	Fund to be operational in late 2013
4. Reform textbook acquisition process	Helped establish a Supply Chain Management Unit to manage acquisitions
5. Deliver 1.3 million textbooks	Delivered approximately 700,000 textbooks, with final delivery scheduled for late 2013
6. Build 3 new regional study and resource centers	Projected completion by October 2013
7. Improve management and infrastructure	Began construction of facilities later than anticipated at Etosha National Park but completion still projected by the end of the compact
8. Increase tourism through improved marketing	Awarded contracts to improve public relations and media; developed a tourist Web site
9. Develop ecotourism at communal conservancies	Provided training and technical assistance; awarded grants

OIG found the following problems with the Education Project:

- Five of six renovated schools visited by OIG had construction defects (page 5). OIG observed cracks, leaking ceilings, doors unable to lock, and other problems. MCC officials said these problems would be addressed.
- Two of the six renovated schools OIG visited were too small to accommodate current students (page 6). One principal told OIG that the school had turned away 37 students because it did not have space for them. MCA-N officials said that designs of the schools were developed during compact development, and enrollment figures might have changed since then.
- Teachers lacked training on science equipment provided by MCC (page 6). MCA-N is providing training to new teachers, but not those currently in the field.
- A monitoring and evaluation indicator showed an unexpected decrease (page 7). MCA-N and MCC officials were investigating the issue to assess the validity of the indicator.
- Textbooks and cars were not marked (page 7). MCA-N officials said the cars were not marked because some in Namibia were not supportive of the United States, and the textbooks were not marked because of their large number.

Regarding the Tourism Project, OIG found that:

- Conservancy grants were not audited for environmental compliance, as required by the compact (page 8). MCA-N officials were unaware of the requirement, but MCC officials said that MCA-N had provided appropriate oversight.
- Knowledge transfer to conservancy members was limited (page 9). Members are trained in governance, but then rotate out of governing roles. No mechanism exists for sharing the training knowledge.
- The monitoring and evaluation plan lacks an indicator for measuring training (page 9).

In addition, OIG found that:

- Staffing limitations could impede the operation of a grants facility and the regional study and resource centers (page 11). MCA-N and the Namibian Government had not yet reached agreement on the appropriate staffing levels.
- MCA-N undertook a review of expenditures at the Namibia Training Authority (page 11). The Chief Executive Officer of the Authority was removed from office, but MCA-N officials were confident that MCC funds were properly spent.
- Government-imposed fees could affect conservancies in the Tourism Project (page 12). The Namibian Government is debating whether to charge fees on private investors that operate tourist lodges on the communal conservancies.

To address these concerns, OIG recommends that MCC's Vice President, Department of Compact Operations:

1. Coordinate with MCA-N to develop and implement an action plan to identify and address all outstanding contractor-related construction issues at completed schools (page 5).
2. Review the 47 renovated schools to determine whether MCA-N can take any actions to improve temporary facilities at the overcrowded schools, and revise the *Compact Development Guidance* to include guidelines for countries proposing education projects (page 6).
3. Require MCA-N to train science teachers at the schools renovated under the compact to help them use the new science equipment effectively and document such training (page 7).
4. Coordinate with MCA-N to determine and document the accuracy of the data reported on the *Learners (any level) participating in the 47 schools sub-activity* indicator, and describe efforts taken to improve data quality and accuracy (page 7).
5. Coordinate with the Department of Congressional and Public Affairs to review MCA-N's branding and marking efforts to determine whether additional marking of cars and textbooks would be beneficial, and document the results (page 8).
6. Direct MCA-N to conduct and document audits as required in the compact (page 8).
7. Coordinate with MCA-N to implement a process for transferring governance training subject matter to future conservancy board members (page 9).

8. Coordinate with MCA-N to assess whether adding an indicator for training of conservancy members to the monitoring and evaluation plan for Namibia would help measure the project's effectiveness, and document the results (page 9).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology, and Appendix II presents MCC's written comments. Our evaluation of MCC's comments is on page 13.

AUDIT FINDINGS

Education Project

Five of Six Renovated Schools Visited Had Construction Deficiencies

OIG visited six schools where renovations had been completed and found five with construction defects that had not yet been addressed. Defects included significant cracks in walls and foundations (like the one shown below), leaking ceilings, a rusty roof panel, constant accumulation of dust on concrete floors, doors unable to lock, broken doors, broken toilets, and toilet stations with inadequate ceilings to provide cover from inclement weather. School officials told OIG they had notified MCA-N of the defects and were waiting for MCA-N to reply. The officials sent letters to MCA-N from 1 to approximately 6 months prior to the OIG visit.



A crack is visible on the school floor in the Ohangwena Region. (OIG photograph, May 23, 2013)

To help ensure quality construction, MCC officials said that all MCA infrastructure contracts include a 12-month defects notification period so that ultimately works are completed in accordance with contract specifications. The contractor must address any defects brought to its attention during this period. The schools OIG visited were still within the defects notification period. According to MCC officials, a certain number of defects are common in construction projects and the overall quality of the school construction for this project was high. Nevertheless, to address the defects, the supervisory engineer hired by MCA-N, will work with the contractor to determine the schedule of repairs.

Well-built, functional schools are a vital component of an effective educational system. If defects are not corrected, they pose sustainability risks to the school buildings and the materials and equipment inside, such as furniture and computers. Ultimately, if left uncorrected, the defects could affect achievement of the project goals. To address this concern, we make the following recommendation.

Recommendation 1. We recommend that the Millennium Challenge Corporation's Vice President of Compact Operations coordinate with Millennium Challenge Account-

Namibia to implement an action plan to identify and address all outstanding contractor-related construction defects at completed schools.

Two of Six Renovated Schools Were Too Small to Accommodate Current Students

Two of six renovated schools OIG visited did not have enough classroom space for all of their students. Some students were working in temporary sheds as makeshift classrooms adjacent to the school buildings. Furthermore, one principal told OIG that earlier in the year the school had turned away 37 students seeking to enroll because it lacked capacity. Both of the schools' principals had asked MCA-N to provide additional classrooms while renovations were under way, but MCA-N officials had told them it was too late. Sufficient classroom space is necessary for achieving the compact goal of bolstering the quality of general education.

MCA-N officials said that the schools' designs were determined many years ago during compact development, and school enrollment figures might have changed since then, leading to overcrowding. OIG could not determine the extent to which enrollment figures were used by MCC during compact development in Namibia. Further, MCC's *Compact Development Guidance* does not establish requirements for education projects, such as using data on enrollment figures when planning projects.

While enrollment at the schools may fluctuate over time, the renovated schools should accommodate the community, at least initially. Overcrowded facilities are detrimental to the project goals because they will diminish students' learning experiences, reduce the project's effectiveness, and tarnish MCC's reputation. Although time does not allow additional classrooms to be built, improvements to the temporary facilities might be possible. Absent specific guidance, MCC risks designing future education projects without all relevant data. To address these concerns, we make the following recommendation.

Recommendation 2. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations (1) review the 47 renovated schools to determine and document whether Millennium Challenge Account-Namibia can take any actions to improve temporary facilities at the overcrowded schools and (2) revise the Compact Development Guidance to include guidelines for countries proposing education projects.*

Teachers Lacked Training on Science Equipment Provided by MCC

The compact states that MCC funding will be used to advance the projects' objectives. MCA-N spent approximately \$1 million to provide each of the 47 renovated schools with science equipment and materials as part of the compact goal of improving the quality of general education.

Teachers at nearly half of the schools OIG visited were not using the science equipment effectively. The teachers said they were unfamiliar with the equipment and needed additional training in its use. New teachers still in training will receive additional science training as part of the MCC Education Project, but teachers already in the field will not.

If teachers do not use the equipment provided by MCA-N effectively, students' learning opportunities will be diminished, and attainment of the project goals may be adversely affected. To help ensure that schools use the science equipment and materials properly, we make the following recommendation.

Recommendation 3. We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, require the Millennium Challenge Account-Namibia to train science teachers at the schools renovated under the compact to use the new science equipment effectively and document such training.

Monitoring and Evaluation Indicator Showed an Unexpected Decrease

The May 2013 Table of Key Performance Indicators shows that one of the Education Project indicators, *Learners (any level) participating in the 47 schools sub-activity*, has decreased since the project began. This indicator is part of the MCA-N's Monitoring and Evaluation Plan and is used to measure the project's progress. This decrease indicates that enrollment figures have declined since the project began. An MCC official said that MCC and MCA-N officials expected this indicator to increase, and they are investigating the issue. The officials suspect that the data for this indicator, which were provided by the Ministry of Education, were inaccurate.

MCC's *Policy for Monitoring and Evaluation of Compacts and Threshold Programs*, May 1, 2012, establishes data quality standards (Section 4.4.2) and states that data are valid to the extent that they clearly, directly, and adequately represent the result to be measured.

Inaccurate source data from the government could lead to misrepresentations of the project's effectiveness and progress. Without accurate data, MCC and MCA-N officials cannot assess progress and identify problems and solutions. To address this concern, we make the following recommendation.

Recommendation 4. We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Millennium Challenge Account-Namibia to (1) determine and document the accuracy of the data reported on the Learners (any level) participating in the 47 schools sub-activity indicator and (2) describe and document efforts taken to improve data quality and accuracy.

Textbooks and Cars Were Not Marked

MCC's *Standards for Global Marking* requires that the MCA logo or signature be placed on any material paid for with MCC funds that is visible to a significant portion of the population. MCA-N prepared a Branding and Marking Manual, but it does not specifically identify items to be marked.

700,000 textbooks provided by MCA-N to students across the country as part of the Education Project were not marked. An additional 600,000 textbooks were to be provided to students in late 2013. Similarly, the cars paid for and used by MCA-N were not marked or identified as being affiliated with MCA-N.

Asked why they did not mark the cars, MCA-N officials said that they did not want to bring attention to the cars since some Namibians are not supportive of the United States. MCA-N officials also said that the textbooks were not marked because the large number of them made marking infeasible. Other Namibian Government officials, however, said that marking the textbooks might be possible.

The lack of MCA markings on textbooks and cars reduces opportunities for MCC's outreach and publicity. To maximize MCC's outreach efforts in Namibia, we make the following recommendation.

Recommendation 5. We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Department of Congressional and Public Affairs to review the Millennium Challenge Account–Namibia's branding and marking efforts to determine whether additional marking of cars and textbooks to be delivered would be beneficial and document the results.

Tourism Project

Conservancy Grants Were Not Audited for Environmental Compliance

The Tourism Project includes the awarding of grants to communal conservancies to help expand tourism and improve the conservancies' sustainability. The conservancies are community-based wildlife and tourism organizations established on communal land. Once registered with the government, a conservancy receives rights over wildlife and tourism activities. Section C.4 of the compact states:

Periodic and random audits of the performance of a subset of grant funding recipients will be conducted to ensure compliance with both MCC Environmental Guidelines and Namibian environmental requirements.

As of June 2013, however, MCA-N had not conducted any of these audits. MCA-N officials said they were unaware of the requirement to conduct periodic and random audits. MCC officials said that MCA-N officials had not conducted audits because they had provided an appropriate level of oversight by auditing grant proposals, reviewing checklists completed by the grantees, randomly visiting the conservancies, and continuously monitoring the grantees' compliance with MCC guidelines.

MCC and MCA-N officials expressed confidence that grant recipients were complying with MCC and Namibian environmental requirements, but audits would help confirm this. Damage to the environment would be detrimental to the conservancies' ability to attract tourists, generate revenue, and remain sustainable. Environmental damage would also hurt MCA-N and MCC's reputations.

To help assess the grantees' adherence to MCC and Namibian Environmental Guidelines, we make the following recommendation.

Recommendation 6. We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, direct in writing that the Millennium Challenge Account–Namibia conduct and document audits as required in the compact.

Knowledge Transfer to Conservancy Members Was Limited

MCA-N hired a contractor to deliver training and technical assistance to conservancy members to help strengthen their capacities to manage the conservancies. One aspect of the training focuses on governance, which includes developing and using a constitution and doing financial planning. The governance training is provided to current governing representatives elected from the conservancy membership.

Although the contractor provided training to the current governing representatives, no formal process is in place to support the sharing of training knowledge with future governing representatives. Representatives are required to rotate after their 3- to 5-year elected terms. In addition, training courses are not recorded. Training materials are given to training participants, but may be ineffective for future use because of high illiteracy rates.

Capacity-building goals may not be met if knowledge gained during training courses is not sustained for future use. In turn, ineffective governance may prevent conservancies from reaching their full potential and hurt the livelihoods of conservancy members. To address this concern, we make the following recommendation.

***Recommendation 7.** We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Millennium Challenge Account–Namibia to implement a process for transferring governance training subject matter to future conservancy board members.*

Monitoring and Evaluation Plan Lacks a Training Indicator

As noted, the Tourism Project is designed to strengthen the capacities of communal conservancies by providing training and technical assistance to conservancy members. MCA-N and MCC developed a monitoring and evaluation plan that uses indicators to measure progress toward the expected results throughout the project's implementation. MCC's *Policy for Monitoring and Evaluation of Compacts and Threshold Programs*, May 1, 2012, states that the indicators should be useful for providing oversight of the compact, and for sufficiently measuring the results.

The monitoring and evaluation plan does not include an indicator for conservancy members' training. MCC officials said that they do not have a specific indicator for training because they rely instead on other indicators to assess the progress of this project activity. For example, the *Annual general meetings with financial reports submitted and benefit distribution plans discussed* indicator is linked to and reflects the training provided to conservancy members.

MCC officials must take advantage of all available resources to help them assess project performance. Absent the transparent and uniform documentation of consistent and reliable information, MCC and MCA-N officials cannot be certain that the project goals are being attained and properly reported. To address this concern, we make the following recommendation.

Recommendation 8. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Millennium Challenge Account–Namibia to assess whether adding an indicator for training of conservancy members to the monitoring and evaluation plan for Namibia would help measure the project's effectiveness and document the results.*

OTHER MATTERS

Staffing Limitations Could Impede Operation of the Grants Facility and Regional Study and Resource Centers

In addition to renovating schools, the MCA-N Education Project aims to improve (1) vocational and skills training and (2) community access to information and study resources. To accomplish these goals, MCA-N helped the Namibian Government establish a National Training Fund to award grants for vocational and skills training. It also built three regional study and resource centers or “super libraries” at a total cost of \$21 million.

However, these two activities risk not having enough staff. MCA-N and MCC officials are concerned that the Namibian Government may not provide staff for the management of the National Training Fund and the regional study and resource centers at levels that MCA-N recommends. MCA-N officials engaged government officials in discussions but had not yet reached agreement on staffing. MCA-N officials said that, because these projects are new to Namibia, government officials were not completely familiar with the staffing requirements. MCA-N officials planned to tour the centers with government officials and discuss details of managing the National Training Fund to improve the government officials’ understanding of staffing needs. MCA-N officials were confident that they would reach agreement on staffing levels. However, if the levels MCA-N recommends are not attained, the programs and facilities may not operate effectively, and the Education Project goals could be jeopardized.

Because MCA-N officials are taking actions to mitigate this risk, OIG is not making a recommendation on this issue.

MCA-N Undertook Review of Spending

The compact states that MCC funding will be used only to further the compact objectives. As noted above, approximately \$2 million in MCC funds were spent to establish a National Training Fund within the country’s Training Authority.

At the time of the OIG visit, MCA-N officials were reviewing expenditures at the Training Authority to ensure that the MCC funds were properly spent. According to MCA-N officials, they undertook this review because the Chief Executive Officer of the Training Authority was removed from the Training Authority in early 2013 following a forensic audit of activities there. The results of the forensic audit and the reasons for the subsequent removal of the Chief Executive were not made public or shared with MCA-N or OIG at the time of the audit.

Judging from the review’s preliminary results, MCA-N officials were confident that MCA-N funds provided to the Training Authority were properly spent. The officials said that MCA-N monies were separated from other Training Authority accounts, and the Training Authority has reported to MCA-N how the funds were spent. MCA-N has asked the Training Authority to provide additional details, including receipts. While the preliminary results are promising, funds spent improperly would affect realization of the compact objectives. Because MCA-N officials are monitoring these expenditures, OIG is not making a recommendation on this issue.

Government-Imposed Fees Could Affect Conservancies

One component of the MCA-N Tourism project involves improving the capacities of communal conservancies to attract investments in ecotourism. MCA-N has awarded grants to selected conservancies to help them partner with private investors to enhance their facilities and increase visits by tourists. However, the conservancies' ability to attract private investors, and the continued financial sustainability of the conservancies themselves, may be diminished by government-imposed fees.

The Namibian Ministry of Lands and Resettlement collects fees on private investors that operate tourist lodges on the conservancies. In recent years, these fees were under a moratorium. The Ministry has expressed interest in recapturing the fees, and has lifted the moratorium in certain areas of the country. Officials at the Namibian Ministry of Environment and Tourism (the Ministry working with MCA-N on the Tourism Project) and MCA-N are concerned that private investors will be reluctant to invest in the conservancies if the leasehold fees are collected. With reduced private investment, conservancies may not reach their full economic potential. MCA-N officials said that representatives from both ministries are working together to determine a course of action.

Because MCA-N is discussing the ramifications of fees with the ministries involved and monitoring the government's actions, OIG is not making a recommendation on this issue.

EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in their entirety in Appendix II of this report. MCC agreed with all eight recommendations and has taken final action on six.

Recommendation 1. MCC agreed to implement an action plan to identify and address all outstanding contractor-related construction defects at completed schools. MCC agrees with the action plan that MCA-N has in place for identifying and addressing all outstanding contractor-related construction defects at completed schools. Working on MCA-N's behalf, the supervisory engineer will conduct inspections, issue notices for correction, and approve corrections made. MCA-N and MCC will also visit the schools regularly, and MCC will continue to monitor progress to ensure correction of defects. OIG acknowledges MCC's management decision and final action.

Recommendation 2. MCC agreed to review the 47 renovated schools to determine and document whether MCA-N can take any actions to improve temporary facilities at overcrowded schools, and to revise the *Compact Development Guidance* to include guidelines for countries proposing education projects. MCC has worked with both MCA-N and the Ministry of Education to improve the temporary facilities at overcrowded schools. The Ministry determined that 20 of the 47 schools need additional classrooms, and MCA-N is procuring prefabricated or modular classrooms for these schools.

In addition, MCC will require MCAs in future compacts with education projects to conduct periodic local stakeholder engagement on school selection, rationale, process, timeline, and interventions after the compact's start. OIG acknowledges MCC's management decision and final action.

Recommendation 3. MCC agreed to require MCA-N to train science teachers at renovated schools to use science equipment effectively and document such training. MCC requested that MCA-N address this concern. In turn, MCA-N arranged for the science equipment vendors to provide additional training to teachers. In addition, MCA-N is working to strengthen the teacher training provided by the Ministry of Education and will provide MCC with reports as training is completed. OIG acknowledges MCC's management decision and final action.

Recommendation 4. MCC agreed to coordinate with MCA-N to determine and document the accuracy of the data reported on the *Learners (any level) participating in the 47 schools* sub-activity indicator and document efforts taken to improve data quality and accuracy. MCC and MCA-N have been investigating this issue and have used the services of a firm specializing in data quality review. The firm's preliminary findings indicate that the data are generally accurate, showing that enrollment figures are not increasing as initially expected. As a result, MCC and MCA-N will explore the apparent disconnect between the target and the indicator data, which were expected to increase.

In addition, MCA-N is contracting a data quality consultant to help build capacity in the government entities that provide data for the compact. OIG acknowledges MCC's management decision. Final action will occur when MCC provides OIG the results of the data quality review.

Recommendation 5. MCC agreed to coordinate with the Department of Congressional and Public Affairs to review the MCA-N's branding and marking efforts to determine whether additional marking of cars and textbooks to be delivered would be beneficial and document the results. MCA-N is installing labels on cars and expects to finish by January 2014. MCC and MCA-N determined that labeling the textbooks would not be cost-effective and would delay their delivery. However, MCA-N has begun an extensive informational campaign associated with the textbook procurement. OIG acknowledges MCC's management decision and final action.

Recommendation 6. MCC agreed to direct in writing that MCA-N conduct and document audits as required in the compact. In November 2013, MCC sent a letter to the MCA-N Chief Executive Officer requesting that MCA-N conduct and document audits as required in the compact. OIG acknowledges MCC's management decision and final action.

Recommendation 7. MCC agreed to coordinate with MCA-N to implement a process for transferring knowledge of governance training subject matter to future conservancy board members. MCC and MCA-N are working on a sustainability strategy for the conservancy activity. MCA-N and the Ministry of Environment and Tourism are attempting to establish a trust fund administered by a Namibian association and supported by stakeholder contributions. OIG acknowledges MCC's management decision. Final action will occur when MCC provides OIG MCA-N's final sustainability strategy.

Recommendation 8. MCC agreed to coordinate with MCA-N to assess whether adding an indicator for training of conservancy members to the monitoring and evaluation plan for Namibia would help measure the project's effectiveness and document the results. MCC acknowledged that a training indicator might have been useful if established earlier, but determined that adding the indicator would not be necessary or useful at this time. However, MCC will use a variety of other indicators and information to assess and evaluate the training activity. OIG acknowledges MCC's management decision and final action.

SCOPE AND METHODOLOGY

Scope

OIG conducted this audit of the MCC-funded Program in Namibia in accordance with generally accepted government auditing standards. These 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.

MCC signed a compact with the Government of Namibia for \$305 million that entered into force in September 2009. This audit focused on the \$142 million Education Project and the \$68 million Tourism Project.

We conducted our fieldwork from April 4 to August 1, 2013, at MCC headquarters in Washington, D.C., and visited MCA-N in Windhoek from May 13 to May 31, 2013. In Namibia, we visited ten schools under construction or newly renovated. We also visited Etosha National Park and four communal conservancies.

Methodology

To answer the audit objective, we met with MCC officials to gain an understanding of compact activities. We visited Namibia to observe ongoing activities and interview MCA-N staff, contractors, and program beneficiaries. We analyzed documents and reports to identify concerns.

We examined the internal control environment by identifying, assessing, and testing the relevant controls. In particular, we reviewed MCA-N's processes for:

- Awarding major procurements by comparing actions taken with the MCA-N procurement guidelines.
- Awarding grants by confirming their compliance with MCA-N grant criteria.
- Distributing textbooks by randomly selecting textbooks at schools to confirm that they were provided by MCA-N.
- Reviewing contractor health and safety checklists to confirm they were being completed.

The audit team met with MCC staff in Namibia and in Washington, D.C. In addition, we met with MCA-N staff, contractors, and beneficiaries in Namibia. Specifically, we performed the following:

- Interviewed MCC and MCA-N officials to gain an understanding of the project activities.
- Interviewed contractors, Namibian Government officials, other donors, and project beneficiaries to gain their perspectives on the risks facing the project.

- Reviewed documents supporting the project activities, including the compact, due diligence documents, monitoring and evaluation plan, contracts, and progress reports.

The audit team judgmentally selected 10 schools to visit out of 47 being renovated as part of the Education Project. At each school, the team confirmed that construction was under way or had taken place and met with officials to discuss the renovations. The schools were selected judgmentally in order to allow the team to visit as many schools as possible during our limited time in Namibia. Similarly, the audit team judgmentally selected 4 communal conservancies out of 31 participating in the Tourism Project to visit and confirm their participation. The conservancies were selected judgmentally to allow the team to visit as many as possible during our limited time in Namibia.

The audit team judgmentally selected textbooks at schools visited to confirm they had been provided by MCA-N. Because the textbooks were distributed to many schools throughout the country, the audit team was required to judgmentally select textbooks provided to the schools OIG would be visiting. Similarly, the audit team could not visit all schools under construction, so the team limited its review of health and safety checklists to the schools OIG visited.

The audit team judgmentally selected conservancy grants for review that were awarded to the conservancies visited by the OIG team. Finally, the audit team judgmentally selected the six largest MCA-N procurements for review to determine compliance with MCA-N's procurement guidelines.

Because the audit team used judgmental sampling as described above, the results cannot be projected to the entire populations involved.

MANAGEMENT COMMENTS



Memorandum

TO: Robert Fry
Acting Deputy Assistant Inspector General
Office of Inspector General
Millennium Challenge Corporation

FROM: Jonathan Bloom /s/
Deputy Vice President
Department of Compact Operations
Millennium Challenge Corporation

RE: MCC's Management Response to the OIG draft report on the "Audit of the Millennium Challenge Corporation Funded Program in Namibia," Draft Audit Report No. M-000-14-00X-P

MCC appreciates the opportunity to respond to the OIG draft report on the "Audit of the Millennium Challenge Corporation Funded Program in Namibia."

OIG Recommendation 1: We recommend that the Millennium Challenge Corporation's Vice President of Compact Operations coordinate with Millennium Challenge Account-Namibia to implement an action plan to identify and address all outstanding contractor-related construction defects at completed schools.

MCC's Management Response: MCC concurs with this Recommendation.

The correction of construction defects at the schools rehabilitated under the Compact is subject to the terms of standard contracts that MCC ensures are used in program implementation. In the case of the schools, MCA-Namibia uses a modified form of the FIDIC Red Book Construction Contract 1999 edition. That form of contract requires that the supervising engineer for each

construction project identify and track the correction of latent defects in the completed schools that occur during the defects notification period (which lasts for one year after turnover of the rehabilitated schools from the contractor to the beneficiaries). MCA-Namibia maintains a performance security and a percentage of regular contract payments to ensure that the contractor completes all work, including the remedy of defects under the contract.

Pursuant to the terms of the construction contracts, MCA-Namibia already has an action plan in place to identify and address all outstanding contractor related construction defects at completed schools. MCC is in agreement with the action plan and has an active role in support for the plan (i.e., attending site meetings, inspections, and monitoring work under all construction contracts with MCA-Namibia). The action plan is implemented by the supervising engineer and includes the following steps:

1. conduct a site inspection at the end of the defects notification period;
2. prepare a list of latent defects identified during the inspection (see sample list: Annex A);
3. provide notice to the contractor to correct all latent defects within a specified time frame (see sample notice to contractor: Annex B); and
4. issue the Performance Certificate upon correction of all latent defects and approval by the supervising engineer.

MCA-Namibia expects the Performance Certificates for completed schools in package 2 (which includes all of the schools inspected by OIG) to be issued by the Supervising Engineer by the end of 2013. Once the certificate is issued, MCA-Namibia will make the final payment under the contract to the contractor.

MCA-Namibia takes the additional action of visiting the schools regularly during and after construction and accepts feedback from the schools' administration. Defects that are identified in this manner become action items for the supervising engineer and contractor.

The MCC Resident Country Mission and MCC headquarters staff have been actively involved in the site visits for completed schools and the identification and tracking of latent defects. MCC is satisfied with the level of response by MCA-Namibia and contractors adherence to the terms of the respective construction contracts. MCC will continue to monitor progress on all school construction contracts and to work with MCA-Namibia to ensure correction of any defects identified at the schools.

This constitutes MCC's Management Decision and Notice of Final Action.

OIG Recommendation 2: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operation (1) review the 47 renovated schools to determine and document whether Millennium Challenge Account-Namibia can take any actions to improve

temporary facilities at the overcrowded schools and (2) revise the Compact Development Guidance to include guidelines for countries proposing education projects.

MCC's Management Response: MCC concurs with this Recommendation.

2 (1) Since the submission of the initial OIG draft Recommendations, MCC has engaged MCA-Namibia as well as the Ministry of Education to find a solution to the issue of temporary facilities at overcrowded schools. Both MCA-Namibia and the Ministry of Education (MOE) have agreed on a plan to procure pre-fabricated or modular classrooms (see attached letter of approval from MOE: Annex C). The MOE has identified schools in need of additional classrooms in response to the OIG's findings. Currently, MCA-Namibia has procurement tenders in process for additional classrooms at 20 of the 47 schools.

It is important to note that the MCC Education Division conducted extensive due diligence with the MOE on projected enrollments and potential demand for classroom space at the beginning of the Compact in order to develop sound plans for the construction of new school classrooms. While due diligence performed early in Compact development informed school selection and scope, this did not account for later MOE decisions regarding school restructuring, mobility within the targeted population, and parental choices during the course of the Compact.

2 (2) For future compacts with education projects, MCC will include language in the compact program implementation agreement requiring MCAs to conduct periodic local stakeholder engagement (at the school and community level) on school selection, rationale, process, timeline and interventions after the Compact's start. The MCA-Namibia team has developed protocols which can serve as a useful model for consulting locally and nationally on infrastructure options and other work plans in response to unexpected changes in school enrolment.

This constitutes MCC's Management Decision and Notice of Final Action.

OIG Recommendation 3: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, require the Millennium Challenge Account-Namibia to train science teachers at the schools renovated under the compact to use the new science equipment effectively and document such training.

MCC's Management Response: MCC concurs with this Recommendation.

MCC has requested that MCA-Namibia address this concern. MCA-Namibia has requested that the vendors for the science lab equipment provide additional training to teachers on proper use of equipment. Additionally, MCA-Namibia has worked with the Continuous Professional Development Unit (CPD) of the MOE, which provides professional in-service training for teachers and administrators, to develop a proposal for training teachers in the use of science lab equipment. MCA-Namibia has allocated additional funding for this training which is scheduled to start in early 2014. At the advice of MCC, MCA-Namibia is also working through CPD to

ensure that the Faculty of Education (science teaching section at the University of Namibia) and regional CPD coordinating committees work to institutionalize this teacher training effort. These efforts are documented in MCA quarterly reporting. At MCC request, MCA-Namibia will provide MCC with reports on concluded training once the training is completed. MCC will also monitor science learning outcomes in the targeted areas.

This constitutes MCC's Management Decision and Notice of Final Action.

OIG Recommendation 4: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operation, coordinate with the Millennium Challenge Account–Namibia to (1) determine and document the accuracy of the data reported in the Learners (any level) participating in the 47 schools sub-activity indicator and (2) describe and document efforts taken to improve data quality and accuracy.

MCC's Management Response: MCC concurs with this Recommendation.

4 (1) MCC and MCA-Namibia have cooperated to determine and document the accuracy of the data reported in the *Learners (any level) participating in the 47 schools sub-activity* indicator. First, MCA-Namibia commissioned an independent Data Quality Review (DQR) in 2011 which determined that the data source for this indicator was considered fit for purpose. However, given the observed and unexpected decreases in enrollment, MCC and MCA-Namibia began further investigating this issue in late 2012.

As result of that investigation, MCA-Namibia and MCC learned that some of the Compact-supported schools split and others expanded to include new grades. Even though MCA-Namibia is now able to compare “apples to apples,” there continue to be some small fluctuations in annual enrollment data (i.e., an increase or decrease of approximately 1,000 students or 4% of enrollment) from one year to the next. Overall, however, enrollment appears fairly flat, and does not seem to be increasing as initially expected and reflected in the targets for this indicator.

As a final step in this investigation, MCA-Namibia asked the DQR firm to conduct another independent assessment of the indicator. Although the final report for this exercise is not available yet, the DQR firm's out-brief presentation (see Annex D) indicates that the data source generally continues to be fit for purpose with respect to student numbers but cautions that data for some schools could be missing (from time to time) as was the case for one of the schools being supported by the Compact. The DQR firm also recommends that the baseline and historical indicator reports be updated to reflect their findings.

4 (2) In order to improve data quality going forward, MCA-Namibia is contracting a data quality consultant to help build capacity of government entities, such as the MOE, providing data for the Compact. In addition, MCC and MCA-Namibia will update the Indicator Tracking Table, which tracks performance on indicators outlined in the M&E Plan, with values that have been informed by the DQR mission. Finally, MCC and MCA-Namibia will explore the apparent disconnect

between the indicator values reported thus far and the target, which anticipated an increase of nearly 10 percent over the baseline value.

This constitutes MCC's Management Decision.

OIG Recommendation 5: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operation, coordinate with the Department of Congressional and Public Affairs to review the Millennium Challenge Account–Namibia's branding and marking efforts to determine whether additional marking of cars and textbooks to be delivered would be beneficial and document the results.

MCC's Management Response: MCC concurs with this Recommendation.

Pursuant to the applicable MCC standards for marking and branding, MCA-Namibia is in process to procure labeling for vehicles purchased with MCC funds. The procurement and installation of the signs/logos is expected to be completed by January 2014.

MCC has also discussed the branding and marking of textbooks with MCA-Namibia. To date some 800,000 textbooks have been distributed to Namibian schools and MCA-Namibia's vendors have begun the textbook distribution process for the last tranche of textbook procurement (another 800,000 textbooks). After consultation with MCA Namibia, MCC has concluded that it is not cost effective to proceed with branding and marking textbooks already distributed and textbooks that are in process of distribution. The cost of branding already distributed text books is deemed prohibitive at this late stage of the Compact. Branding of textbooks now in the late stages of procurement would result in substantial delays in getting textbooks to schools prior to the start of the school year in February 2014. Since previous tranches of textbook procurements and delivery to schools were delayed, MCC and MCA-Namibia have determined that the reputational risk for any delay in the distribution of textbooks under the final tranche to allow for branding to occur is too high and should be avoided.

To mitigate the lack of branding on MCC funded textbooks and to raise MCC's visibility as a donor, MCA-Namibia has put in place an extensive informational campaign associated with MCA-Namibia's procurement of textbooks.

This constitutes MCC's Management Decision and Notice of Final Action.

OIG Recommendation 6: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, direct in writing that the Millennium Challenge Account-Namibia conduct and document audits as required in the compact.

MCC's Management Response: MCC concurs with this Recommendation.

MCC has written a letter to the MCA-N CEO to conduct and document audits as required by the Compact agreement (see Annex E).

This constitutes MCC's Management Decision and Notice of Final Action.

OIG Recommendation 7: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Millennium Challenge Account–Namibia to implement a process for transferring governance training subject matter to future conservancy board members.

MCC's Management Response: MCC concurs with this Recommendation.

MCC currently is working with MCA-Namibia and its consultants to establish strong governance practices in the 31 conservancies that the Conservancy Development Support Services (CDSS) activity supports. To help ensure that conservancies continue to receive this support after the Compact ends, MCA-Namibia is working on a sustainability strategy for the sector that includes a sustainability taskforce led by the Ministry of Environment and Tourism and MCA Namibia that seeks to establish a trust fund administered by NACSO and supported by stakeholder contributions that will provide this support to the conservancies as part of a conservancy support extension system.

This constitutes Management Decision.

OIG Recommendation 8: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, coordinate with the Millennium Challenge Account–Namibia to assess whether adding an indicator for training of conservancy members to the Monitoring and Evaluation Plan for Namibia would help measure the project's effectiveness and document the results.

MCC's Management Response: MCC concurs with this Recommendation.

MCC has reviewed the Conservancy Development Support Services (CDSS) activity-related indicators in the M&E Plan and acknowledges that tracking training could have been a useful if such an indicator had been established earlier in the Compact period. However, given that only one year remains in the Compact and remaining training sessions are to be provided only to people who have already been trained on some topics, adding an indicator to track training of conservancy members does not seem necessary or useful for tracking performance of the activity at this stage.

Despite the lack of a training indicator, the M&E Plan does speak to the importance of measuring and reporting on what has been accomplished under this activity. For example, a

number of the outcome-level monitoring indicators (e.g., *Annual General Meetings with financial reports submitted and benefit distribution plans discussed* and *share of conservancy revenue paid out in dividends and/or spent on community services*) are linked to the training provided under the intervention. On a related note, MCA-Namibia has hired an independent evaluator to assess other key outcomes of CDSS technical assistance, including changes in business partnerships, conservancy revenue, conservancy governance, distribution of benefits, and overall household wellbeing. While training of conservancy management is a key output of the intervention that has not been reported on in the Indicator Tracking Table to date, MCC's perspective is that the outcome-level monitoring indicators and the evaluation will be useful in helping us understand and report on the effectiveness and results of the Activity.

This constitutes MCC's Management Decision and Final Action.

If you have any questions or concerns, please contact Monique Ricker with MCC's Office of Quality Assurance at 202-521-7235 or rickermt@mcc.gov.

Enclosure

- Annex A: Sample list of latent defects (rec 1)
- Annex B: Notice to contractor (rec 1)
- Annex C: MOE approval letter (rec 2)
- Annex D: DQR Presentation (rec 4)
- Annex E: MCC letter to MCA-N CEO (rec 6)

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
<http://oig.usaid.gov>