



**OFFICE OF INSPECTOR GENERAL**  
U.S. Agency for International Development

# MCC Took Steps To Address Human Capital Challenges in the Georgia II Compact's Education Project

**REPORT M-114-18-001-S**  
**JANUARY 25, 2018**

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## MEMORANDUM

DATE: January 25, 2018

TO: Vice President, Department of Compact Operations, Robert I. Blau

FROM: Principal Director, Millennium Challenge Corporation Audits, Donell Ries /s/

SUBJECT: MCC Took Steps To Address Human Capital Challenges in the Georgia II Compact's Education Project (M-114-18-001-S)

This memorandum transmits the final report on our review of the Improved Learning Environment Infrastructure Activity under the Georgia II Compact. Our review objective was to determine what steps the Millennium Challenge Corporation (MCC) took to mitigate human capital risks related to rehabilitating schools under the activity.

The report contains our review findings. We are not making recommendations for the reasons described in the conclusion section of this report.

We appreciate the assistance you and your staff extended to us during this review.

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## INTRODUCTION

Many of Georgia's more than 2,300 schools were built in the Soviet era and have not had ongoing maintenance. Consequently, their heating, electrical, water supply, and sanitation systems are in poor condition. To rehabilitate school infrastructure and improve general education quality, MCC's second compact with Georgia includes \$56.5 million for the Improved Learning Environment Infrastructure Activity.

Early in the compact development process, MCC concluded that a key risk to completing the rehabilitation work was a shortage of technical experience, such as engineers and contract specialists, among the Georgian Government staff at the Educational and Scientific Infrastructure Development Agency (ESIDA), which is the school maintenance and construction unit in the Ministry of Education and Science that is implementing the rehabilitation work. The Office of Inspector General (OIG) conducted this review to determine what steps MCC took to address that shortage.

To answer our review objective, we reviewed MCC documents; conducted fieldwork in Tbilisi, Georgia; and interviewed MCC officials in Washington, DC, and MCC and Millennium Challenge Account-Georgia (MCA-Georgia) officials in Tbilisi, Georgia. We also met with Georgian Government officials, contractors, and project managers. Appendix A details our scope and methodology.

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## BACKGROUND

On January 5, 2011, MCC determined that the Government of Georgia was eligible for a second compact.<sup>1</sup> Georgia's proposal identified low quality of human capital and deficiencies in the education system as key constraints to economic growth and private sector development. The \$140 million compact was signed on July 26, 2013, entered into force on July 1, 2014, and ends on July 1, 2019. The Georgian Government, as part of the compact with MCC, established MCA-Georgia to oversee projects and activities under the compact.

The compact mandates strategic investments in the country's education sector through projects that include the Improved Learning Environment Infrastructure Activity. The activity was designed to rehabilitate approximately 130 dilapidated public school facilities, provide science laboratories, and upgrade school utilities—benefiting approximately 45,500 students—and to establish an operations and maintenance (O&M) program for Georgian schools that includes a strategy and corresponding implementation plan.

MCA-Georgia selected ESIDA to do the rehabilitation and establish an O&M program for the Georgian school system. The O&M program is seen as critical to ensuring the sustainability of Georgian schools.

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<sup>1</sup> The Georgia I Compact comprised enterprise development and regional infrastructure rehabilitation projects. It entered into force on April 8, 2006, and ended on April 7, 2011.

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## **MCC TOOK STEPS TO MITIGATE MCA-GEORGIA'S HUMAN CAPITAL RISKS FOR SCHOOL REHABILITATION PROJECTS**

Early in the compact development process, MCC concluded that a key risk to completing the rehabilitation work was a shortage of technical experience, such as engineers and contract specialists, among the Georgian Government staff. Consistent with Federal internal control standards that management demonstrate its commitment to recruiting, developing, and retaining competent personnel, the compact required ESIDA to hire permanent, dedicated and technically qualified staff to develop and implement the O&M plan. The plan would help ensure that human resources, program activities, implementation mechanisms, and budgetary processes were integrated and would be sustained after the end of the compact. MCC made clear that it would not disburse funds for school rehabilitation until MCA-Georgia and ESIDA met the staffing and planning requirements for the O&M plan.

MCA-Georgia contracted with an engineering consultant in September 2013 to provide a broad range of consulting services including assessing the structural integrity of the schools proposed for rehabilitation and preparing design specifications and estimates for selected schools. However, because of the consultant's poor performance, which MCC stated was partly due to a lack of agreed-upon school design criteria, MCA-Georgia could not finish the school rehabilitation design packages. By August 2014, MCA-Georgia ended its contract with the engineering consultant.

To meet MCC's staffing requirement, MCA-Georgia required ESIDA to hire engineers, contracting specialists, and project managers/coordinators. MCA-Georgia also adjusted the experience levels and competencies for key positions that ESIDA had difficulty filling. For example, MCA-Georgia changed the education and experience requirements for the project coordinator, requiring less work experience but a higher level of education. It decreased both the education and work experience requirements for the civil engineer position. Lastly, MCA-Georgia no longer required the contract specialist position to hold a degree in engineering but rather a bachelor's degree and possess at least 5 years' experience of working in international or local infrastructure (or relevant) development projects. According to MCC officials, these changes helped reduce vacancies in these key positions which had prevented ESIDA from performing its duties and responsibilities effectively. By March 2017, ESIDA was fully staffed.

In June 2015, MCC amended its Program Implementation Agreement with MCA-Georgia to require appropriate staffing and support of the development of an O&M plan. Moreover, MCC required the staffing and support for the O&M plan to be in place before the disbursement of funds for school rehabilitation. Originally, the work was supposed to be performed by an O&M consultant. However, according to MCC officials, MCA-Georgia terminated the contract due to poor performance. Subsequently, MCA-Georgia authorized ESIDA to hire staff to develop the O&M plan, advocate its adoption, and implement the plan. These changes mitigated the risks of not having a plan in place by the end of the compact. In March 2017, the MCA-Georgia Supervisory Board, chaired by the Prime Minister of Georgia, adopted the O&M plan.

After delays in finalizing school rehabilitation designs and obtaining more accurate cost estimates, MCC has revised the target number of beneficiaries this project will impact. The initial plan to benefit 45,500 students and rehabilitate approximately 130 schools has changed to 37,000 students and an estimated 80 to 100 schools. As of May 2017, MCA-Georgia had rehabilitated 19 schools.

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## **CONCLUSION**

Rehabilitating dilapidated school facilities, upgrading utilities, and providing science laboratories for Georgian public schools were designed to improve the quality of general education and increase the earning potential of Georgians. When this Georgia II Compact activity experienced problems with human capital capacity, MCC responded by improving controls over project implementation. With less than 2 years remaining in the compact, MCC attention to human capital risk management could help ensure the revised schedules are successfully completed by the end of the compact in 2019. Because MCC recognized and took action to address the risks identified, we make no recommendations in this report.

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## **APPENDIX A. SCOPE AND METHODOLOGY**

We conducted our work from January 2015 to November 2015 and February 2017 to November 2017. Between these dates, fieldwork was temporarily halted due to the unexpected departure of key OIG staff. We conducted this review following internally established OIG policies that govern the planning, conducting, and reporting of this work product. Those policies require that the review team is competent, independent, conducts its work using reasonable care, and follows established quality control procedures. Those policies also require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our review objective. We believe that the evidence obtained provides that reasonable basis.

This review objective was to determine what steps MCC took to mitigate human capital risks related to the Georgian Government's ability to rehabilitate schools under the Improved Learning Environment Infrastructure Activity of the Georgia II Compact, which entered into force in July 2014. We examined the Georgia II Compact, the program implementation agreement, implementing entity agreements, including all amendments as of June 2016, and consultant contracts, due diligence records, compact conditions precedent, quarterly narrative reports, the fiscal accountability plan, and the National Whole School Operations and Maintenance System Framework Plan.

In addition, we reviewed key documentation, including budget inputs, monitoring and evaluation documents, site visit reports, project memos, and school condition checklists to understand MCA-Georgia and ESIDA selected schools and the progress of rehabilitation plans. In Washington, DC, we interviewed MCC compact operations, economic, and procurement officials to gain their perspectives on the risks to the Improved Learning Environment Infrastructure Activity and to the compact. In Tbilisi, Georgia, we interviewed MCA-Georgia program officials, and key engineering and program staff working at ESIDA, the implementer for this activity, on their roles and responsibilities. We did not rely extensively on or verify the reliability of computer-based data from MCC or MCA-Georgia to answer the review objective. The data we obtained from MCC and MCA-Georgia provide context for the finding and observation.



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## APPENDIX B. AGENCY COMMENTS



# Memorandum

Date: December 21, 2017

To: Donell Ries  
Principal Director  
Millennium Challenge Corporation Audits

From: Robert I. Blau  
Vice President, Department of Compact Operations  
Millennium Challenge Corporation

Subject: MCC Response to Report No. M-000-18-00X-P, "MCC Took Steps to Address Human Capital Challenges in the Georgia II Compact's Education Project"

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the Office of Inspector General's (OIG) draft report on the Georgia II Compact's Education Project. MCC is pleased that the OIG recognizes our actions to improve controls over project implementation which have addressed problems experienced with human capital capacity at the outset of the compact and, as a result, the auditors have not made recommendations in the report.

MCC and our Georgian partners are focusing priority attention on the completion of the planned school rehabilitations and are on track to reach our 37,000 student beneficiary target by the end of the Compact. As of December 4, 2017, MCC had received completion certificates for 28 schools; two additional schools are in the final stages of rehabilitation and will reopen to students between now and January.

MCC thanks OIG for the auditors' review of the Georgia II Education Project and their thorough analysis during the past year of the corrective actions taken by MCC and our partners to address the findings and recommendations provided in the initial draft report.

Cc: Gary Middleton, Director, Performance Audits, OIG  
Fatema Sumar, Deputy Vice President, (DCO/EAPLA), MCC  
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## **APPENDIX C. MAJOR CONTRIBUTORS TO THIS REPORT**

The following people were major contributors to this report: Gary Middleton, director; Rhonda M. Horried, assistant director; Reid Featherstone, auditor; Mark Spina, program analyst.