



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/PAKISTAN'S CAPACITY BUILDING FOR THE FEDERALLY ADMINISTERED TRIBAL AREAS DEVELOPMENT PROGRAM

AUDIT REPORT NO. 5-391-10-005-P  
JANUARY 28, 2010

MANILA, PHILIPPINES



*Office of Inspector General*

January 28, 2010

**MEMORANDUM**

**TO:** USAID/Pakistan Director, Robert Wilson

**FROM:** Regional Inspector General/Manila, Bruce N. Boyer /s/

**SUBJECT:** Audit of USAID/Pakistan's Capacity Building Program for the Federally Administered Tribal Areas Development Program (Audit Report No. 5-391-10-005-P)

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

The audit report contains four recommendations to assist the mission in improving various aspects of the program. On the basis of information provided by the mission in response to the draft report, we determined that final action has been taken on recommendation 1. In addition, management decisions have been reached on recommendations 2, 3, and 4. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

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

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# SUMMARY OF RESULTS

Pakistan's Federally Administered Tribal Areas (FATA) are located along the country's border with Afghanistan, and for the last three decades, FATA and the surrounding region have witnessed unprecedented turmoil and instability. The FATA region is the most economically depressed area of Pakistan, and some 66 percent of the population in the FATA lives below the national poverty line. The literacy rate of the FATA population is estimated at only 17 percent.

To improve the development of this region, the Governor of the North-West Frontier Province established the FATA Secretariat in 2002. The Secretariat is responsible for overall governance in the tribal areas and for providing services such as health care, education, and public works. The FATA Development Authority, another FATA governmental institution, was established in 2006 and is responsible for economic development. However, neither institution has the capacity to plan and manage public services and development resources at the level of funding programmed by the Government of Pakistan and international donors (page 4).

In January 2008, in order to increase the capacity of FATA governmental institutions—and FATA nongovernmental organizations (NGOs)—USAID/Pakistan awarded a 3-year, \$43.4 million contract to Development Alternatives, Inc. (DAI), to carry out the Capacity Building for the Federally Administered Tribal Areas Development Program. In May 2009, to cover the cost of security measures, the mission increased the contract amount by \$2.2 million to a total of \$45.6 million. As of October 31, 2009, USAID had obligated approximately \$19.7 million and expended approximately \$15.5 million (page 5).

The Regional Inspector General/Manila conducted this audit to determine whether the program is achieving its main goals of improving the capacity of FATA governmental institutions to govern and increasing the capacity of FATA NGOs to promote good governance (page 6). Although the program has provided training, taken initial steps to automate FATA institutions, and completed some media activities, little has yet been achieved in building the capacity of FATA governmental institutions and NGOs. As of October 31, 2009, the capacity building program had been in place for 22 months of a 36-month program but had achieved little with regard to the program's two main goals. Additional time may be needed, as many planned activities are scheduled to be completed over 3 years, and most capacity building activities began after October 2008—10 months into the 3-year performance period.

Regarding the first main goal, the program has not yet achieved the goal of improving the capacity of FATA governmental institutions to govern. The audit found that little progress had been achieved to build the capacity of the FATA Secretariat and the FATA Development Authority, in part because the program got off to such a slow start. During the first year, the contractor focused its resources on working out best approaches to designing and implementing activities, building up relationships with FATA institutions, and developing work plans. Also, the deteriorating security situation in Peshawar and the assassination in November 2008 of the chief of party of another USAID program delayed progress in the FATA capacity building program. However, some progress has been made in certain activities. For example, in its second year the program focused on training in project management, development planning, and financial management. As

of September 30, 2009, 74 training events had been completed for 1,224 FATA governmental institution staff members (page 7).

Regarding the second main goal, the program did not increase the capacity of these NGOs to promote good governance, although some progress was made. For example, the program had implemented a few activities to address weaknesses of FATA NGOs, such as providing formal training classes and purchasing office equipment for 42 NGOs working in FATA. However, the few FATA-based NGOs that exist lack the human and financial resources to promote good governance effectively. In most instances, FATA NGOs needed first to strengthen their proposal preparation skills, financial management practices, and monitoring and evaluation capabilities before they could start to promote good governance (page 8).

Because of a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers such as DAI. As a result, in June 2009 the mission refrained from fully funding a DAI incremental funding request of \$15.3 million and, 4 months later, approved only \$4.7 million in additional funds. In October 2009, the mission asked DAI to consider preparing a 90-day demobilization plan. However, as of November 2009, no final decision had been made as to whether the DAI contract would be terminated or, if terminated, what program implementation mechanisms would replace the U.S.-based contractor (page 5).

In summary, although little real progress had been made to date to build capacity of either FATA governmental entities or FATA NGOs, the audit discusses three areas in which program accomplishments have been delayed and improvements can be made:

- The transition to a new implementation strategy has impeded the program's progress (page 9).
- Capacity building in automation has had little success, and most of the computer hardware purchased for the program has remained boxed up and unused (page 11).
- Monitoring and reporting systems for managing development projects—such as a geographic information system that enables project information to be represented on maps and a database system to document the life cycle of development projects—have not been completed, and they may not be completed until June 2010 (page 16).

This report contains four recommendations to address these issues and to help improve implementation of the program (pages 11, 15, and 18). We recommend that USAID/Pakistan:

- Provide immediate written guidance to the contractor and to the FATA governmental institutions to identify contractual arrangements that would be in force to implement the Capacity Building for the Federally Administered Tribal Areas Development Program as the mission transitions to USAID's new implementation strategy.
- Develop and issue implementation plans, following best practices, to (1) assign 260 computers (and related equipment) to the FATA governmental institutions and (2)

transfer 140 laptop computers to the North-West Frontier Province and to ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.

- Take immediate steps to confirm the existence of 72 laptop computers. If the laptop computers cannot be produced, the mission should issue a bill of collection to the contractor for \$1,400 for each missing laptop.
- Require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the Federally Administered Tribal Areas Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practices of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat.

On the basis of an evaluation of the mission's response to the draft report, the Office of Inspector General determined that final action has been taken on recommendation 1, and management decisions have been reached on recommendations 2, 3, and 4. The mission's written comments on the draft report are included in their entirety, without attachments, as appendix II to this report (see page 22).

# BACKGROUND

Pakistan's Federally Administered Tribal Areas (FATA) are located along the country's border with Afghanistan, as shown in the map below. For the past three decades, the FATA and the surrounding region have witnessed unprecedented turmoil and instability. The FATA region is the most economically depressed area of Pakistan, and some 66 percent of the population in the FATA lives below the national poverty line. The literacy rate of the FATA population is estimated at 17 percent. The FATA region is administered by the Governor of Pakistan's North-West Frontier Province (NWFP).

## Federally Administered Tribal Areas (FATA) of Pakistan



To improve the development of this region, the NWFP Governor established the FATA Secretariat in 2002. The Secretariat is responsible for the overall governance of the tribal areas and for providing services such as health care, education, and public works. The FATA Development Authority, another governmental institution, was established in 2006 and is responsible for the region's economic development. Both the FATA Secretariat and the FATA Development Authority report to the Governor of the NWFP. However, neither institution has the capacity to plan and manage development resources at the level of funding programmed by the Government of Pakistan and international donors.

USAID/Pakistan's Capacity Building for the Federally Administered Tribal Areas Development Program was designed (1) to improve the capacity of FATA governmental institutions to govern and manage increased donor resources and (2) to strengthen the capacity of FATA nongovernmental organizations (NGOs) to promote good governance. Building the capacity of FATA governmental institutions and NGOs was envisioned as a long-term effort.

At its headquarters in Peshawar, Pakistan, the FATA Secretariat employs approximately 500 staff members, and the FATA Development Authority employs 100. The FATA Secretariat has at least 30,000 additional employees, mostly teachers and health care providers, spread throughout the FATA. To increase the capacity of FATA governmental institutions, the program planned to provide technical training in development planning, project management, financial management, information technology, and media relations. As part of its assistance to FATA NGOs, the program planned to provide training in many of the same areas and to purchase office equipment such as laptops, printers, photocopiers, and office furniture.

In January 2008 the mission awarded a 3-year, \$43.4 million contract to Development Alternatives, Inc. (DAI), a U.S.-based contractor, to implement the program. In May 2009, the mission increased the contract amount to \$45.6 million to cover increased security measures, such as employing a security director, procuring two armored vehicles, hardening facilities, and hiring extra guards. The \$2.2 million increase also covered the costs of relocating contractor expatriate staff from Peshawar to Islamabad, following the assassination in November 2008 of the chief of party of another USAID program operating in Peshawar.

However, because of a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs, in 2009 the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers. As a result, in June 2009 the mission refrained from fully funding a DAI incremental funding request of \$15.3 million and in September 2009 approved only \$4.7 million in additional funds. In October 2009 the mission asked DAI to consider preparing a 90-day demobilization plan. However, as of November 2009, no final decision had been made as to whether the DAI contract would be terminated or, if terminated, what program implementation mechanisms would replace the U.S.-based contractor.

As of October 31, 2009, USAID had obligated approximately \$19.7 million and expended approximately \$15.5 million toward implementing its capacity building program in the FATA. The contractor estimated a cost of approximately \$1 million to close down the program by January 2010.

## **AUDIT OBJECTIVE**

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

- Is USAID/Pakistan's Capacity Building for the Federally Administered Tribal Areas Development Program achieving its main goals of improving the capacity of FATA governmental institutions to govern and increasing the capacity of FATA nongovernmental organizations to promote good governance?

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

# AUDIT FINDINGS

The main goals of USAID/Pakistan's Capacity Building for the Federally Administered Tribal Areas (FATA) Development Program are (1) improving the capacity of FATA institutions to govern and (2) increasing the capacity of FATA nongovernmental organizations (NGOs) to promote good governance. Although the program has provided training, taken initial steps to automate FATA institutions, and completed some media activities, it has achieved little in building capacity for FATA governmental institutions and NGOs. As of October 31, 2009, the capacity building program had been in place for 22 months of a 36-month program (61 percent completed), but the program has made little headway toward achieving its two main goals. Because many planned activities were scheduled to be completed over 3 years, and most capacity building activities began 10 months into the 3-year performance period (October 2008), more time is needed to achieve success.

The capacity building program has not achieved its goal of improving the capacity of FATA governmental institutions to govern. The audit found that little progress had been achieved in building the capacity of the FATA Secretariat and the FATA Development Authority, in part because the program got off to such a slow start. Specifically, in the first year, the contractor:

- Focused resources on working out best approaches to designing and implementing activities, building up relationships with FATA institutions, and developing work plans.
- Finalized its first-year work plan in May 2008, 5 months after the contract start date.
- Produced a radio program that was broadcast in parts of FATA beginning in December 2008—5 months past the planned start date in June 2008.
- Completed its automation strategy in September 2008, 5 months later than planned.

Further delay was caused by the resignation of the contractor's chief of party in September 2008, and the position remained vacant until January 2009. And finally, because of a deteriorating security situation in Peshawar and the assassination in November 2008 of the chief of party of another USAID program, USAID mandated that all expatriate contractors working on USAID programs in Peshawar had to move to the relative safety of Islamabad.

Even though progress was slow during the program's first year, key capacity building activities did make more progress in the second year of implementation. For example, in the second year the program focused on providing training in project management, development planning, and financial management. As of September 30, 2009, 74 training events had been completed that benefited 1,224 FATA governmental institution staff members.

Furthermore, in the second year the program successfully established a strategic communication unit for the FATA and the North-West Frontier Province (NWFP) to expand the government's public outreach campaign. The communications unit subcontracted with partners to develop and produce two radio programs and two

television documentaries. One radio program, “Voices of the People,” was broadcast 232 times; the other radio program, “Step By Step,” 181 times. The two television documentaries, “Cries of Anguish” and “Road to Peace,” were developed, screened, and distributed. In addition, the program established a new FM radio station called Amn Radio (“Radio Peace”) for an estimated cost of \$72,000<sup>1</sup> in Mardan, a city in the NWFP near the FATA. The radio station began broadcasting in October 2009 for 4 hours a day to deliver messages to people displaced by conflict and to broadcast positive content to help change the perceptions of listeners in favor of peace.

With regard to the program’s second goal, although the program had implemented a few activities to address weaknesses of FATA NGOs, the program did not achieve the goal of increasing the capacity of these NGOs to promote good governance. The few FATA-based NGOs that exist lack the human and financial resources to promote good governance effectively. In most instances, FATA NGOs needed first to strengthen their proposal preparation skills, financial management practices, and monitoring and evaluation capabilities before they could start to promote good governance.

Program activities for FATA NGOs included interventions to improve the capacity to manage and utilize funding effectively. To increase such capacity, the program selected 42 FATA NGOs to support. That support included formal training opportunities, placing FATA NGO staff into 3-month internships with larger, well-established Pakistani NGOs, and purchasing office equipment such as laptops, printers, photocopiers, and office furniture. As of October 2009, the program had conducted only 12 formal training classes (ranging from 2 to 18 days) for 267 staff from 36 FATA NGOs. Class subjects included organizational development, financial management, proposal writing, and disaster risk management. Moreover, the program had placed 80 FATA NGO staff members (achieving only 50 percent of the calendar-year target) into 3-month internships with larger Pakistani NGOs. Finally, only about \$300,000 had been spent of the \$1.9 million anticipated to be spent over the 3-year performance period to help tribal communities through FATA NGO activities.

The program has not made much progress toward achieving its goal of increasing the capacity of these organizations to promote good governance. Several difficulties have caused the delay:

- These organizations need continued, long-term support to build their capacity.
- The contractor took 9 months to compile a list of FATA NGOs, properly screen and vet the organizations, and identify weaknesses needing improvement.
- The program commenced capacity building activities for these organizations only in November 2008.
- The program had approved 15 project activities (primarily internships) to support FATA NGO capacity building but had placed the activities on hold because of the possible termination of the U.S.-based contractor.

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<sup>1</sup> Unaudited estimated costs included radio equipment, furniture, building renovations, air conditioners, and a generator.

To help increase the capacity of FATA NGOs during the final year of the program, the contractor told the audit team that FATA NGOs needed to be affiliated with larger, mainstream Pakistani NGOs in order to gain business experience, build financial resources, and develop their capacity to become full development partners.

In summary, although little real progress has been made to date to build the capacity of FATA governmental institutions or FATA NGOs, three specific program challenges are discussed in more detail below, and recommendations are made to address these challenges:

- The transition to a new implementation strategy further impeded the program's progress, and at the time of audit the program's future direction was unclear.
- Capacity building in automation had little success, and most of the computer hardware purchased for the program was boxed up and unused.
- Two monitoring and reporting systems to manage development projects—a geographic information system that enables project information to be represented on maps and a database system to document the life cycle of development projects—have not been completed, and the capacity of FATA governmental institutions in this area has not been increased.

## **Change to a New Implementation Strategy Has Further Impeded Program Progress**

**Summary.** In June 2009, under the auspices of the Federal Acquisition Regulation,<sup>2</sup> the program's contractor notified the mission that additional funds were required and requested \$15.3 million in incremental funding. The mission refrained from approving the \$15.3 million requested, however, and in September 2009 the mission approved only \$4.7 million in additional funding. The mission's reason for not approving the request for the full incremental funding was a high-level change of emphasis in U.S. Government strategy toward greater Pakistani involvement in program implementation, instead of implementing programs through U.S.-based contractors. At the time of the audit, it was unclear whether the new strategy would result in the termination of the U.S.-based contractor or would further reduce the level of assistance being provided through that contractor. Also at the time of the audit, the mission had asked the contractor to submit a demobilization plan, even though the mission had not told the contractor to terminate. Funding delays and shortfalls, plus the lack of clear instruction from the mission on the contractor's status, impeded progress in capacity building, and many key program activities were on hold.

The mission's change to a new implementation strategy further impeded program progress as early as June 2009, after the mission had refrained from funding the contractor's incremental funding request of \$15.3 million. On September 30, 2009, the mission approved only \$4.7 million—nearly \$11 million short of the amount requested.

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<sup>2</sup> See 48 CFR 52.232-22.

Federal Acquisition Regulation 52.232-22, "Limitations of Funds," requires contractors who have spent 75 percent of obligated funds under the contract to notify the contracting officer in writing whenever the contractor has reason to believe that the costs it expects to incur under the contract in the next 60 days will exceed the contract amount. In June 2009, the contractor notified the mission's contracting office that by July 18, 2009, its spending would exceed 75 percent of obligated funds. The mission approved the incremental funding of \$4.7 million on September 30, 2009, and the contractor notified the mission in October 2009 that it planned to spend all of the remaining obligated funds by January 2010.

After the contractor's funding request in June 2009, only two emails from the mission provided written guidance to the contractor on whether the contract would continue under the new implementation strategy. In the first email, on October 1, 2009, the mission's contracting office asked the contractor to consider preparing a 90-day demobilization plan. In the second, nearly 3 weeks later on October 19, the mission's contracting office instructed the contractor to submit a demobilization plan by October 30, 2009. However, according to contract office email, the preparation and submission of a demobilization plan did not necessarily mean that the contract would be terminated. Moreover, the contractor was advised to continue scheduled program implementation and to focus on producing results as specified in the approved work plan.

The mission refrained from approving the incremental funding request of \$15.3 million because of a high-level change of emphasis in U.S. Government strategy toward greater Pakistani involvement in program implementation and increased partnerships with Pakistani organizations—in lieu of implementation by U.S.-based implementers. In addition, the recently passed Enhanced Partnership with Pakistan Act of 2009<sup>3</sup> has encouraged the use of Pakistani firms and local NGOs in implementing assistance. As a result, the new strategy will probably expand significantly the level of assistance passing directly to the Government of Pakistan and through Pakistani implementing partners and may well rely less on existing U.S.-based contractors, such as the one implementing the FATA capacity building program.

The progress of the FATA capacity building program has been further hindered by the funding delays and shortfalls, which started as early as June 2009, and the lack of clear instructions from the mission as to whether the U.S.-based contract would remain in place. Furthermore, at the time of the audit, the contractor had been scheduled to begin demobilization actions on November 15, 2009. As a result, the contractor and the FATA governmental institutions were uncertain of the program's future. A senior FATA Secretariat official told the audit team that the program had been practically at a standstill since September 2009 and that little action was expected until USAID gave the contractor and the FATA Secretariat clear instructions on how to proceed. The official also commented that they had received no word from USAID on the continuation of the contractor's assistance, and the Secretariat official insisted that USAID inform the contractor and the FATA Secretariat as to when contractor changes might occur.

In addition, many other program activities remained on hold, awaiting clear written guidance from USAID. The FATA Secretariat suspended automation enhancements because, without the contractor, they did not have the capacity to sustain the information

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<sup>3</sup> Public Law 111-73 (October 15, 2009).

technology investment provided by the program. Specifically, the Secretariat lacked the funds and the technical specialists to manage the automation infrastructure because they had assumed that the contractor would be assisting them through December 2010.

According to the contractor, other key program activities have also been suspended or delayed. These activities include two monitoring and reporting systems to manage development projects; training for NGOs; development of additional broadcast material for the program-sponsored radio station; and procurement and distribution of 200,000 portable radios to communities in the NWFP and FATA.

Since many key activities have been stalled until the mission provides clear written guidance, USAID/Pakistan needs to take immediate corrective action and issue specific guidance to the contractor and FATA governmental institutions on alternative implementation arrangements that may be put in place under the new implementation strategy.

***Recommendation 1.** We recommend that USAID/Pakistan provide immediate written guidance to the contractor and to the Federally Administered Tribal Areas governmental institutions to identify contractual arrangements that would be in force to implement the Capacity Building for the Federally Administered Tribal Areas Development Program as the mission transitions to USAID's new implementation strategy.*

## **Capacity Building in Automation Has Had Little Success**

**Summary.** The contractor's work plan for 2009 identified six deliverables to be completed in calendar year 2009 for capacity building in automation. As of November 2009, the contractor had completed only two of the six deliverables that were meant to increase the economies and efficiencies of FATA governmental institutions. The deliverables were not completed because the program did not use key best practices in its automation strategy. The strategy did not set realistic business goals, manage risk through a risk mitigation plan, or execute deliverables as planned. Because the contractor did not achieve all six deliverables, the FATA governmental institutions have experienced little success in putting to use the \$1.5 million in automation enhancements procured for the program. Notably, at the time of the audit, 340 of 400 computers procured for the FATA governmental institutions remained boxed up and unused.

The contractor's work plan identified six deliverables to be completed in calendar year 2009 for capacity building in automation. As of November 2009, the contractor had completed only two of the six deliverables that were meant to increase the economies and efficiencies of the FATA Secretariat and the FATA Development Authority. The audit concluded that the contractor would not achieve the four remaining deliverables by the end of 2009—deliverables that included hiring information technology specialists, assembling network infrastructure, and networking 400 computers.

The contractor achieved two deliverables during calendar year 2009: (1) signed memorandums of understanding on automation improvements with the FATA Secretariat and the FATA Development Authority and (2) computer training for at least 300 staff members of these two institutions. The following substantial deliverables were not achieved:

- The contractor did not hire the planned 32 information technology specialists for the two institutions to support the automation infrastructure and provide routine maintenance. As of November 2009, only 1 of the 32 specialists had been hired. After signing memorandums of understanding in March 2009 and May 2009 with the two institutions, the program planned to pay the salaries of 4 specialists assigned to the FATA Development Authority and 28 specialists assigned to FATA Secretariat through December 2010. After this period, FATA institutions were expected to hire the same workers initially employed by the capacity building program.
- The contractor did not assemble or install network infrastructure equipment by September 30, 2009. Most of this equipment, such as servers, firewalls, and communication devices, remained in the original boxes at the two institutions.
- The contractor did not install or connect 400 laptops and desktop computers to networks, along with other equipment. As of October 2009, 340 of the 400 computers remained unused, stored in their original boxes at the FATA Secretariat room (see photos on page 14) and in a contractor's storage facility, or they were used as stand-alone computers, unconnected to a server. Of the 60 computers that were in use, 50 were connected to servers at the FATA Development Authority, and 10 were connected to servers at the FATA Secretariat on a trial basis.
- The contractor did not automate any of the planned five modules of core business software. This enterprise-level software included five modules, but none of the modules were being used. The modules consisted of software for procurement, human resources, and finance operations, internal communications, and planning and monitoring.

The contractor did not achieve these four deliverables primarily because the program did not use key best practices<sup>4</sup> in its automation strategy to derive the most benefits from information technology improvements. For instance, the strategy did not set realistic automation goals, manage risk through a mitigation plan, or execute deliverables as planned.

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<sup>4</sup> The Control Objectives for Information and Related Technology (COBIT) is a set of best practices for information technology management created by the Information Systems Audit and Control Association and the Information Technology Governance Institute in 1996. COBIT provides managers, auditors, and other users with a set of generally accepted measures, indicators, processes, and best practices to assist them in maximizing the benefits derived through the use of information technology and developing appropriate information technology governance.

- **Office automation goals were not realistic.** The implementation strategy overestimated the automation goals that could be achieved in the time available. Most of the key business operations in the two FATA governmental institutions (e.g., finance and budgeting, project management, and human resource management) were performed manually. However, the program strategy “road map” had envisioned that most workers would use computers loaded with five modules of core business software by the end of the 3-year program and one module by the end of calendar year 2009, justifying the program’s plans to purchase 400 computers. However, the target of implementing even one module by the end of calendar year 2009 was unrealistic in the context of the existing information technology environment.
- **Program lacked a risk mitigation plan.** The contractor did not prepare an information technology risk mitigation plan. The contractor had identified several high-risk indicators, but these risks were not reduced by a mitigation plan. For example, as specified in the contractor’s work plan, success in automating FATA institutions was judged to be at high risk because these institutions used computers only on a limited basis and only as stand-alone computers, never connected to a central server. Another high-risk indicator identified by the program showed that 81 percent of the 395 users surveyed had no knowledge of computers and no familiarity with the Internet or Microsoft Office.
- **Deliverables were not managed successfully.** The contractor did not manage deliverables successfully. Specifically, several important deliverables were interdependent—if one deliverable was not met as planned, the next deliverable probably would not succeed either. For example, one deliverable—hiring 32 information technology specialists—could have been completed shortly after the memorandums of understanding were signed in May 2009. Had these specialists been hired, the subsequent deliverable of assembling network infrastructure hardware at both FATA institutions might have been accomplished as planned.

Because the four deliverables were not achieved, the FATA governmental institutions have experienced little success in automation. Specifically, only 60 of the procured computers were put into use and connected to networks. However, none of the FATA institutions’ business operations were being automated (e.g., finance and budgeting, project management, and human resource management); thus, these institutions saw no improvement in the efficiencies and economies of their core business processes.



**Unassembled servers and other communication equipment, delivered to the FATA Development Authority in Peshawar, Pakistan, remained in boxes. (OIG photo taken on October 13, 2009).**



**Laptops, servers, and other communication equipment, delivered to the FATA Secretariat in Peshawar, Pakistan, remained unused and boxed up. (OIG photo taken on October 14, 2009).**

Since core business operations had not been automated and technical specialists had not been hired, the FATA Secretariat and the contractor eventually decided to reduce computer requirements from the initially planned 400 computers<sup>5</sup> to 260 computers. As a result, 140 of 400 computers initially intended to benefit FATA governmental institutions were instead to be provided to the NWFP in November 2009. The contractor had signed a memorandum of agreement with the NWFP in October 2009; however, at the time of the audit, a detailed implementation plan had not been completed to transfer the computers.

Moreover, FATA governmental institutions had not even begun to improve their capacity to sustain the automation enhancements. They had not employed technical specialists to support and maintain computers and the related networks, because the contractor had agreed to hire these specialists and pay their salaries through December 2010. Since only 1 of the projected 32 specialists had been hired, little had been accomplished in improving the capacity of the FATA governmental institutions to manage even the decreased number of computers that they would ultimately receive. Furthermore, the FATA Secretariat told the contractor to suspend its networking and cabling activities, as the Secretariat did not have the capacity to maintain the network.

At the time of the audit, the project was hobbled by limited funding for the contract and by uncertainty as to level of assistance to be provided in light of the new strategy to rely less on U.S.-based contractors. Notably, the contractor's chief of party told the audit team that they could not fix these automation problems unless USAID provided written assurance that the contract would continue, as originally stipulated, through December 2010. He explained that they could not hire employees for automation specialist

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<sup>5</sup> In September 2008, the contractor assessed the program's computer requirements to be 50 computers for the FATA Development Authority and 350 computers for the FATA Secretariat.

positions for 12-month contracts and then turn around 1 month later to release these specialists if USAID terminated the contract.

Immediate corrective action is needed to make use of the \$1.5 million spent for these automation enhancements and to utilize the computers and related peripherals that remained boxed up in storage. Implementation plans are needed, not only for the 260 computers to be provided to the FATA governmental institutions, but also for the 140 laptop computers to be delivered to the NWFP. Since weaknesses were noted and best practices were not fully applied in the program's original automation strategy, implementation plans for both the FATA and NWFP need to be developed to set realistic goals, mitigate risk, and successfully manage program deliverables. Such plans would give USAID more assurance that the computers and related equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.

***Recommendation 2.*** *We recommend that USAID/Pakistan develop and issue implementation plans, following best practices, to (1) assign the 260 computers (and related equipment) to the Federally Administered Tribal Areas governmental institutions and (2) transfer the 140 laptop computers to the North-West Frontier Province and ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.*

After completing the fieldwork, we engaged a local accounting firm to conduct an inventory of high-value information technology equipment provided by the program. The firm found inventoried equipment complete except for 72 laptop computers (with an estimated cost of \$101,000, or \$1,400 for each laptop) that the FATA Secretariat staff had recently distributed to its employees. The firm was unable to physically verify the existence of these laptops because employees had taken them home, and they were unable to bring them back to work in Peshawar because of a high threat alert during the physical inventory. Therefore, we are making the following recommendation.

***Recommendation 3.*** *We recommend that USAID/Pakistan take immediate steps to confirm the existence of 72 laptop computers. If the laptop computers cannot be produced, the mission should issue a bill of collection to the contractor for \$1,400 for each missing laptop.*

## Monitoring and Reporting Systems To Manage Development Projects Have Not Been Completed

**Summary.** The contract requires the program to build the capacity of the FATA Secretariat to conduct effective monitoring and reporting. The program's work plan for calendar year 2009 identified two systems that were to be completed that year to help build the FATA Secretariat's capacity to manage its development projects: (1) a geographic information system (GIS) to display in a map format the inputs and outcomes of all the ongoing development activities in FATA, and (2) a planning commission database system to capture key information relating to project development. However, as of November 2009, the contractor had not come close to completing either of the two systems, even though the contractor had projected that both systems would be completed by June 2010. The contractor had not completed the two systems because of its slow startup in the first year of the program and subsequent funding delays, among other reasons. With regard to the GIS, however, the mission had instructed the contractor to develop that system initially for USAID programs rather than to develop a similar system for the FATA Secretariat. As a result, at the time of the audit, the GIS system was more useful to USAID than to the FATA Secretariat. Also, because the two systems were not completed, the FATA Secretariat's capacity to manage its development projects has not improved.

The contract requires the program to build the governing capacity of the FATA Secretariat and the FATA Development Authority. To comply with the contract, the program's 2009 calendar year work plan identified two systems to be completed within that year to help build the capacity of the FATA Secretariat to monitor and report on its portfolio of development projects. The FATA Development Authority was not included in the work plan because the contractor had concentrated its work on the larger of the two FATA institutions. The two systems were (1) a geographic information system (GIS) for the FATA Secretariat, which the contractor planned to complete by December 2009, and (2) a planning commission database, which the contractor had originally planned to complete by June 2009. The GIS would display in a map format the inputs and outcomes of all ongoing development projects in the FATA. The planning commission database would automate the first of five steps of the GOP planning commission's<sup>6</sup> life cycle for development projects—the detailed project proposal.

However, as of November 2009, the contractor had not even come close to completing the two systems, even though the contractor had made some progress on the planning commission database. The contractor had indicated that both systems would be completed by the end of June 2010. These systems are important to help build the FATA Secretariat's capacity to monitor and evaluate its development activities.

- The GIS is designed to capture inputs and outcomes of all developmental activities ongoing in FATA and to display these activities on detailed maps. The GIS is also intended to be a planning and decision-making tool through which FATA governmental officials can track activities according to sectors, implementers, progress, status of activities, and geographic location.

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<sup>6</sup> The Government of Pakistan's planning commission is responsible for, among its other requirements, preparing 5-year plans for economic and social development.

- The planning commission database is designed to automate the planning processes of the FATA Secretariat, resulting in the timely and accurate preparation, analysis, and approval of key planning information such as the planning commission's document PC-1.<sup>7</sup> In effect, the PC-1 is a detailed project proposal, which is currently completed on stand-alone computers. The proposal provides specific data about how funds will be expended for a proposed project. Its preparation is the first and most complicated step in the Pakistani regulations for procurement (or requisition for approval) of local development activities. The database system being developed by the program will set up a system to capture all PC-1 information across 15 sectors (e.g., education, health, forestry, agriculture, roads, and bridges). The database will enable the FATA Secretariat to assess, within seconds, how funds from the Pakistani Government and international donors are being used; the old system relies on information collected from hundreds of hardcopy PC-1 documents, which may not even be centrally located.

Regarding the progress on the GIS development, the contractor had conducted preliminary discussions with Secretariat officials and had started assessing system requirements such as equipment, software, and staffing requirements. With regard to the planning commission database, the contractor had started with an off-the-shelf system and reported at the time of the audit that the database was 60 percent complete. Specifically, the contractor had collected 393 PC-1 documents from the 15 sectors to develop a sample record database of historical data.

Several factors prevented completion of the two systems:

- The mission had instructed the contractor to develop the GIS initially for USAID programs, rather than to develop a full-fledged system for the FATA Secretariat as originally planned. As a result, a USAID GIS online system was launched at the U.S. Consulate in Peshawar in September 2009. The contractor had planned to complete the FATA Secretariat GIS by the last quarter of 2009 but had made little progress as of November 2009.
- The data collection process for the planning commission database took longer than expected. The collection process started in first quarter 2009 and continued through the third quarter, as most of the remaining forms needed for the database were not immediately available. The intent was to enter historical data into the new database for monitoring and reporting purposes.
- As discussed earlier in this report, the program got off to a slow start in its first year of implementation and then suffered funding delays and shortfalls in its second year because of USAID/Pakistan's new implementation strategy.
- The contractor did not complete a detailed implementation plan for the GIS and did not update its plan for the database system. Such plans should identify roles, responsibilities, and procedures for the contractor and the other stakeholders to ensure quality, timeliness, and compliance with GOP processes. Once an implementation plan is developed, it needs to be formally approved by users, system

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<sup>7</sup> The planning commission's forms PC-1 through PC-5 document the life cycle of each development project.

administrators, and stakeholders to ensure that, overall, the system's inputs and outputs meet the requirements of the FATA Secretariat and, in the case of the planning commission database, the Government of Pakistan. Such plans should also establish timelines for completing user manuals, developing training courses for users and administrators, and handing over day-to-day operations to the Secretariat.

With regard to this final point, we believe an implementation plan is a key element in the successful implementation of both systems, because such plans help ensure that the system design is consistent with the needs of stakeholders, applicable GOP regulations, and best practices for acquiring and developing information technology systems.

Since neither of the two systems for managing development projects has been completed and little has been done to train Secretariat employees in the use of these systems, there have been no improvements in building the capacity of the FATA Secretariat to monitor and report on the development projects for which the Secretariat is responsible. In short, more than 22 months into the program, the FATA Secretariat lacks the systems and capacity to manage development projects effectively and efficiently. Without the GIS and planning commission database system, FATA institutions will continue to rely upon outdated manual processes of planning, monitoring, reporting, and decision making. Therefore, we are making the following recommendation:

***Recommendation 4.*** We recommend that USAID/Pakistan require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the Federally Administered Tribal Areas Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practices of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat.

# EVALUATION OF MANAGEMENT COMMENTS

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

Final action—recommendation 1.

Management decision—recommendations 2, 3, and 4.

For recommendation 2, the mission agreed with the recommendation and prepared implementation plans for computers assigned to FATA governmental institutions. The mission anticipates receiving approval and acceptance by the FATA governmental institutions by March 31, 2010. With regard to laptop computers transferred to the NWFP, USAID will provide plans to the NWFP government by March 31, 2010.

For recommendation 3, the mission agreed to confirm the existence of 72 laptop computers. As of December 30, 2009, the mission had verified 55 of the 72 laptops. The mission anticipates that the majority of the remaining computers will be accounted for by January 30, 2010. If laptop computers cannot be produced, the mission will issue a bill of collection for each missing laptop by February 28, 2010.

For recommendation 4, the mission agreed with the recommendation and has completed the implementation plan for the planning commission database. A draft implementation plan for the second system has been prepared and is pending approval from the FATA Secretariat. USAID anticipates that the implementation plan will be completed and approved by January 30, 2010.

We consider that management decisions have been reached on recommendations 2, 3, and 4. A determination of final actions will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

In response to the mission's management comments, we reworded our opinion to state more clearly that the first main goal of improving capacity of FATA governmental institutions has not yet been achieved. In the Summary of Results section of the report, we added examples of progress that has been made regarding certain activities. Also, this audit focused on the program's main goals and not other components that were outside the program's main goals.

Also in response to the mission's management comments, we reworded our opinion to state more clearly that some progress was made, and we provided examples of activities that had been implemented to address weaknesses of FATA NGOs.

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

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Manila (RIG/Manila) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objective. We believe that the evidence obtained provides that reasonable basis. The purpose of this audit was to determine whether USAID/Pakistan's Capacity Building for the Federally Administered Tribal Areas (FATA) Development Program is achieving its main goals of improving the capacity of FATA governmental institutions to govern and increasing the capacity of FATA nongovernmental organizations to promote good governance. There were no prior audits associated with the areas reviewed.

We conducted this audit at USAID/Pakistan from October 6 to 30, 2009, and at the office of Development Alternatives, Inc. (contractor), in Islamabad, Pakistan. We also conducted audit fieldwork at USAID/Pakistan's FATA office located at the U.S. Consulate in Peshawar. From October 13 to 15, the audit team also conducted field visits to the Government of Pakistan's local institutions located in Peshawar, Pakistan, at the FATA Secretariat and the FATA Development Authority (FATA governmental institutions).

RIG/Manila entered into a contract with the accounting firm Khalid Majid Rehman of Islamabad to perform agreed-upon procedures on the internal controls over access to and use of information technology resources provided by the capacity building program. The accounting firm conducted an inventory of high-value information technology equipment by making site visits to the FATA governmental institutions in November 2009. The firm found inventoried equipment complete except that 72 laptops issued to government officials were not presented to the firm for physical verification.

The audit focused on activities carried out during fiscal years 2008 and 2009, with updates through November 2009. We obtained an understanding of the management controls related to the capacity building program. The management controls identified included the program performance management plan, mission portfolio review, contracting officer's technical representative site visits, program progress reports, day-to-day interactions between mission staff and contractor, and the mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982.

## Methodology

To answer the audit objective, we reviewed and analyzed relevant documents at the mission and the contractor's office. This documentation included the contract between USAID/Pakistan and the contractor, annual work plans, automation strategies, progress reports, and financial reports. The team interviewed officials from USAID/Pakistan, the contractor, and FATA governmental institutions.

To define results, we assessed the accomplishments of selected activities in response to the program's main goals from the contractor's work plan, which described the specific activities that both the mission and the implementers had agreed to do, including timelines showing when individual activities were expected to be completed. We determined whether the activities in the contractor's work plans had achieved their planned results, basing our conclusions on interviews with the mission technical staff, contract officials, and FATA institution officials as well as on documentation such as quarterly progress reports. Specifically, we based this determination on a comparison of actual results with planned results.

# MANAGEMENT COMMENTS



**USAID** | **PAKISTAN**  
FROM THE AMERICAN PEOPLE

## MEMORANDUM

Date: January 12, 2010

To: Bruce N. Boyer  
RIG/Manila

From: Robert J. Wilson /s/  
Mission Director

Subject: Management Comments  
Audit of USAID/Pakistan's Capacity Building Program for the Federally Administered Tribal Areas Development Program (Report No. 5-391-10-00X-P)

Reference: Bruce N. Boyer's draft audit report dated December 9, 2009.

In response to the referenced memorandum on the above subject, please find below the management comments on the four recommendations:

**Recommendation No. 1:** We recommend that USAID/Pakistan provide immediate written guidance to the contractor and to the Federally Administered Tribal Areas governmental institutions to identify what contractual arrangements may be in force to implement the Capacity Building for the Federally Administered Tribal Areas Development Program as the mission transitions to USAID's new implementation strategy.

**Management Comments:** The Mission management agrees with this recommendation. USAID received approval to proceed with DAI, as an international contractor, in early December and provided guidance to continue with implementation of certain activities through December 2010. The transmittal between the USAID Contract Officer and DAI is documented at Annex 1 (letter dated January 08, 2010) which identifies the contractual arrangements to be in force. Mission accordingly requests closure of this recommendation.

**Recommendation No 2: We recommend that USAID/Pakistan develop and issue implementation plans following best practices for (1) the 260 computers (and related equipment) to be assigned to the Federally Administered Tribal Areas governmental institutions and for (2) the 140 laptop computers to be transferred to the North-West Frontier Province to ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.**

**Management Comments:** The Mission management agrees with this recommendation, as follows:

With regard to part (1), DAI has already prepared implementation plans for computers assigned to FATA government agencies. Mission anticipates receiving FATA Secretariat and FATA Development Authority approval and acceptance of the implementation plan by March 31, 2010. A copy of this implementation is documented at Annex 2.

With regard to laptop computers transferred to the NWFP (part (2) of the recommendation), USAID will provide plans to NWFP Government that correct protocols and procedures are in place for using the laptops for the intended purpose by March 31, 2010.

**Recommendation No 3: We recommend that USAID/Pakistan take immediate steps to confirm the existence of 72 laptop computers. If laptop computers cannot be produced, the Mission should issue a bill of collection to the contractor for \$1,400 for each laptop unaccounted for.**

**Management Comments:** Mission management agrees with this recommendation. As of December 30<sup>th</sup>, USAID/Pakistan staff had photographed and verified 55 of the 72 laptops. The Mission anticipates that the majority of the remaining computers will be accounted for by January 30, 2010. If laptop computers cannot be produced, the Mission will issue a bill of collection to the FATA Secretariat and the contractor for \$1,400 for each laptop unaccounted for by February 28, 2010.

**Recommendation No 4: We recommend that USAID/Pakistan require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the Federally Administered Tribal Areas Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practices of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat.**

**Management Comments:** The Mission Management agrees with this recommendation. DAI has already completed the implementation plan for the Planning Commission Pro-Forma 1 (PC-1) database (as documented in Annex 2). A draft implementation plan for

the GIS system has been prepared and is pending approval from the FATA Secretariat. USAID anticipates that the implementation plan will be completed, and have approval from FATA government agencies, by January 30, 2010. Implementation of both activities will be completed before the Task Order completion date of December 31, 2010.

Mission requests that RIG consider changing the opinion in the first sentence of the fifth paragraph of page 1 and throughout the body of the report where it states that, *“Regarding the first main goal, the program had not even begun to improve the capacity of FATA governmental institutions to govern.”* This statement is contradicted on page 7 where it is written, *“Even though progress was slow during the program’s first year, key capacity building activities did make more progress in the second year of implementation. For example, in the second year the program focused on providing training in project management, development planning, and financial management. As of September 30, 2009, 74 training events had been completed that benefited 1,224 FATA governmental institution staff members.”* Furthermore, the report does not discuss other components of the Capacity Building Program, including those in strategic communications, economic growth, or civil-military coordination. These components, which were USAID priorities, have achieved considerable results and provided significant capacity building support to FATA government agencies and civil society. Their exclusion from the report creates an impression that the activity is completely under-performing when, in fact, the RIG team has identified weaknesses in only some of the activities.

In addition, Mission requests deletion of the first sentence on page 2, *“Regarding the second main goal, the program did not increase the capacity of these NGOs to promote good governance”* as well as the first sentence of the second paragraph on page 8, *“... the Program did not even begin to achieve the goal of increasing the capacity of these NGOs to promote good governance”*. While the program did experience delays, the Mission believes that significant progress has been made in supporting NGOs. As of September 2009, as is written in the report, the project had provided training, technical assistance, and grants to 36 NGOs operating in FATA.

Atch: a/s

**CC: ASIA/SCAA: Andrew Plitt**

**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  
[www.usaid.gov/oig](http://www.usaid.gov/oig)