



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PAKISTAN'S ROAD REHABILITATION AND RECONSTRUCTION ACTIVITIES UNDER THE QUICK IMPACT PROJECTS IN SOUTH WAZIRISTAN

AUDIT REPORT NO. G-391-11-005-P
JUNE 20, 2011

ISLAMABAD, PAKISTAN



Office of Inspector General

June 20, 2011

MEMORANDUM

TO: Acting USAID/Pakistan Mission Director, Denise Herbol

FROM: Office of Inspector General/Pakistan, Director, Steven H. Bernstein /s/

SUBJECT: Audit of USAID/Pakistan's Road Rehabilitation and Reconstruction Activities Under the Quick Impact Projects in South Waziristan (Report No. G-391-11-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments and included your response in Appendix II.

The report contains nine recommendations to help the mission improve various aspects of the program. On the basis of the information provided by the mission in response to the draft report, we determined that final actions have been taken on six recommendations, and management decisions have been made on the other three recommendations. A determination of final action will be made by the Audit Performance and Compliance Division when the mission completes planned corrective actions on the remaining recommendations.

I want to thank you and your staff for the cooperation and courtesies extended to us during this audit.

CONTENTS

- Summary of Results** 1

- Audit Findings**..... 4
 - Mission Increased Technical Capacity to Oversee Infrastructure Projects..... 4
 - Fixed-Amount Reimbursement Agreements Reduced Risk..... 4
 - Revisions to Environmental Assessments Delayed Agreements 5
 - Mission Did Not Tailor Capacity-Building Contract to Quick Impact Projects 6
 - Contractor Lacked a Code of Business Ethics and Conduct..... 7
 - Contracting Officials Did Not Document Contract Files or Communicate Adequately 8
 - Mission Did Not Monitor Implementers’ Branding and Public Announcement Efforts... 10

- Evaluation of Management Comments**..... 12

- Appendix I – Scope and Methodology**..... 13

- Appendix II – Management Comments**..... 15

Abbreviations	
The following abbreviations appear in this report:	
ADS	Automated Directives System
EYFRSH	Ernst & Young Ford Rhodes Sidat Hyder
FAR	Federal Acquisition Regulation
FATA	Federally Administered Tribal Areas
NESPAK	National Engineering Services Pakistan Limited

SUMMARY OF RESULTS

South Waziristan is an arid and mountainous region bordering Afghanistan in northwest Pakistan, part of the Federally Administered Tribal Areas (FATA). With an estimated population of 500,000, this area consists of seminomadic tribes, mostly ethnic Pashtuns. For the last several years, the people of South Waziristan, along with Pakistan's military and civilian agencies, have fought against insurgents and militants in this region.

Due to the commitment and efforts of the people of South Waziristan, the U.S. Government committed to provide direct support to the Government of Pakistan to help rebuild South Waziristan. The generation of broad-based economic growth through infrastructure development was part of the strategic agreement signed by the Governments of Pakistan and the United States on September 30, 2009. According to the agreement, USAID will provide \$55 million directly to the FATA Secretariat, acting on behalf of the Pakistani Government, to implement Quick Impact Projects—rebuild roads, develop water infrastructure, and improve power systems. USAID advanced \$8.25 million for design and mobilization of these projects with a pro rata amount deducted for each payment under a fixed-amount reimbursement agreement until the advance is exhausted.

For rebuilding roads, the two governments divided the work into phases. USAID estimates that its contribution for the first phase will be \$25 million. The estimated amount of the advance allocated to the road activities was \$2.47 million. The FATA Secretariat selected five road activities spanning 519 kilometers. At the time of the audit, 215 kilometers of road had been rehabilitated at a cost of approximately \$13.7 million. The road activities began in February 2010, and the mission anticipates completing this phase in October 2011.

Besides assisting with infrastructure, USAID/Pakistan hired a local public accounting firm, Ernst & Young Ford Rhodes Sidat Hyder, to assist in capacity building for the FATA Secretariat. The 1-year contract amount was \$817,000 with \$197,000 expended as of December 31, 2010. The mission also hired an engineering firm, Associates in Development, for 18 months to provide monitoring and certification of compliance on behalf of USAID/Pakistan at an initial cost of \$3.43 million.

USAID's Office of Inspector General in Pakistan conducted this audit to determine whether USAID/Pakistan's road rehabilitation and reconstruction activities under the Quick Impact Projects in South Waziristan were rebuilding selected roads. Despite some difficulties noted with mission operations, we determined that the road rebuilding efforts were on track. Two sections of road totaling 215 kilometers were completed that met all specifications and approvals required for reimbursement by USAID. Although security issues caused some delays, work progressed on schedule.

The FATA Secretariat hired Frontier Works Organization (Frontier Works) of Pakistan to carry out road activities. For additional support, Frontier Works subcontracted with the Pakistani engineering firm National Engineering Services Pakistan Limited (NESPAK). Both Frontier Works and NESPAK have extensive experience in building roads and other infrastructure projects, and both will work on all the Quick Impact Projects in South Waziristan, including the water infrastructure and power systems. We found that these two entities contributed to the initial success of the road activities.

Two additional factors significantly contributed to the success of the road activities:

- USAID/Pakistan increased its technical capacity to oversee infrastructure projects (page 4).
- The use of fixed-amount reimbursement agreements reduced risk in this government-to-government work (page 4).

However, for progress to continue on the road rehabilitation and reconstruction activities, USAID/Pakistan needs to address the following problems:

- Revisions to environmental assessments delayed agreements (page 5).
- The mission did not tailor the capacity-building contract to the Quick Impact Projects (page 6).
- Contractor lacked a code of business ethics and conduct (page 7).
- Contracting officials did not document contract files or communicate adequately (page 8).
- The mission did not monitor implementers' branding and public announcement efforts (page 10).

Therefore, we recommend that USAID/Pakistan take the following actions:

1. Designate trained personnel in each technical office for oversight of environmental compliance (page 6).
2. Identify projects planned for the next 3 years to determine whether the mission has a sufficient level of support and technical expertise for environmental compliance (page 6).
3. Revise the scope of work and reduce the contract amount for financial and management support for the Quick Impact Projects (page 7).
4. Verify that the USAID contractor, Associates in Development, has a code of business ethics and conduct that meets USAID standards and regulations (page 8).
5. Provide implementers with copies of USAID's policies on ethics and conflicts of interest and with written explanations and examples of potential conflicts (page 8).
6. Designate personnel to provide guidance on conflicts of interest and to monitor implementers' compliance with ethics policies and procedures (page 8).
7. Develop and implement a plan for periodic internal review of contract files for compliance (page 9).
8. Develop and implement a plan to monitor and document the status of contractors' branding and marking plans and provide training as necessary (page 11).
9. Provide additional details to the FATA Secretariat concerning publicizing and marking USAID's contribution to the Quick Impact Projects (page 11).

Detailed findings appear in the next section. The Office of Inspector General/Pakistan's evaluation of management comments begins on page 12. The audit scope and methodology are described in Appendix I, and USAID/Pakistan's comments are found in their entirety, without attachments, in Appendix II.

AUDIT FINDINGS

Two factors significantly contributed to our conclusion that the road activities were on track to rebuild the selected roads: (1) the mission increased its capacity to oversee infrastructure projects and (2) the use of fixed-amount reimbursement agreements reduced risks to the U.S. Government's assistance. Although additional findings in this report point out deficiencies and include recommendations, we wanted first to identify and analyze what was succeeding so that the mission could benefit from the analysis and expand the findings to other projects in the mission's portfolio, as applicable.

Mission Increased Technical Capacity to Oversee Infrastructure Projects

Current USAID policy is to build technical capacity within USAID and to concentrate on areas of expertise such as engineering. The addition of appropriate technical personnel to oversee projects can improve the outcome of USAID programs.

The Quick Impact Projects in South Waziristan are managed by a USAID/Pakistan satellite office in Peshawar. This office covers the majority of USAID programs in the FATA and the province of Khyber Pakhtunkhwa. Most personnel in the Peshawar office who work on Quick Impact Projects conduct site visits, which are important for overseeing USAID contractors who monitor USAID-funded projects.

The Quick Impact Projects team in the Peshawar office consists of a deputy mission director, project director, project manager, and technical support staff. The project manager is a contract engineer for USAID who not only oversees the Quick Impact Projects, but also serves as a contracting officer's technical representative for the local engineering firm that is monitoring and certifying Quick Impact Projects activities. The Peshawar office also receives support from the recently created infrastructure and engineering office in Islamabad, which has three engineers and support staff. The infrastructure and engineering office has also served as a communication link from the Peshawar office to Islamabad to keep the Embassy informed of activity progress.

In this instance, having a project manager who is familiar with both U.S. Government and Pakistan engineering standards strengthened the management of the road activities. The support of the infrastructure and engineering office in Islamabad also contributed to the success of the road activities. Staff in that office assisted in preparing the environmental compliance report that certifies the host-government is capable to maintain roads once work is completed. With these two offices, USAID/Pakistan has increased its technical capacity to support the road activities in South Waziristan.

Fixed-Amount Reimbursement Agreements Reduced Risk

According to USAID's Automated Directives System (ADS), a fixed-amount reimbursement agreement is the preferred method in financing multiple-unit construction activities, such as the road activities in South Waziristan (ADS Supplemental 317). Disbursements for a fixed-amount reimbursement agreement are made for outputs rather than inputs, outputs being the physical completion of a project or subproject or a quantifiable element of the project. The output must

meet previously agreed-upon specifications or standards before reimbursement is made to the host country. The amount of reimbursement is fixed in advance based on reasonable cost estimates reviewed and approved by USAID. To ensure compliance with agreed plans and specifications, the mission is required to conduct periodic inspections of the project, as well as to certify, upon completion, compliance with agreed-upon plans and specifications.

A fixed-amount reimbursement agreement can reduce common risks occurring in road reconstruction projects, such as extension of completion dates and increased costs, because the recipient is not reimbursed until subprojects are completed and the amount paid to the host government is fixed, limiting exposure to rising costs. For the road activities, the mission used a separate fixed-amount reimbursement agreement for each segment of road, reducing the risk of missing target completion dates and allowing some flexibility to address price escalations for construction. Initially, a 25 percent escalation fee was incorporated into the budget for road activities to cover any rising costs. However, the mission and implementers agreed that, at the time each agreement is signed, published construction price indexes relevant to the geographic area will be used instead. Using published price indexes will reduce the risk of unsupported price escalations.

In addition, the mission required the Government of Pakistan—specifically the project management unit within the FATA Secretariat—to set up a separate account for the Quick Impact Projects in South Waziristan. The account is for the deposit of USAID funds, and requires two signatories. The account is set up exclusively for Quick Impact Project activities, and the funds cannot be commingled with funding from any other source. These conditions were detailed in the implementation letter of December 31, 2009, with verification of compliance in April 2010.

A fixed-amount reimbursement agreement reduces risks because the approval process for reimbursement under such an agreement is extensive. Engineers and technical experts with Frontier Works, NESPAK, the FATA Secretariat, and USAID review all requests for reimbursements to ensure compliance with specifications and standards. Although the FATA Secretariat had some noted capacity weaknesses in financial management, a local accounting firm provided coverage in this area that was sufficient for the road activities (page 6). With the strength and expertise of Frontier Works, NESPAK, and USAID, risks were reduced by use of fixed-amount reimbursement agreements.

Revisions to Environmental Assessments Delayed Agreements

Section 117 of the Foreign Assistance Act of 1961, as amended and as reflected in ADS Chapter 204, “Environmental Procedures,” requires that the impact of USAID’s activities on the environment be considered and that USAID include environmental sustainability as a central consideration in designing and carrying out its development programs in foreign countries. USAID/Pakistan Mission Order 200.2, “Mission Implementation of USAID Environmental Policies and Procedures,” emphasizes that environmental compliance is mandatory and that, according to ADS 202, program managers are responsible for managing and monitoring the compliance of their activities.

However, the environmental assessments for the Quick Impact Projects did not comply with USAID regulations, causing delays of up to 5 months in completing fixed-amount reimbursement agreements. Although environmental assessments were completed for some

segments of roadwork, the assessments did not meet USAID regulations. The revisions were minor because the work was for road rehabilitation and reconstruction and not for new construction. NESPAK, which is responsible for the assessments, had to revise the reports to conform to USAID standards, resulting in delays. More delays occurred when the revised environmental assessments were given to the mission's compliance officer.

The delays occurred because, at the time of this audit, USAID/Pakistan had only one environmental compliance officer to cover all projects for the mission, including the increasing number of government-to-government infrastructure projects such as the Quick Impact Projects. According to a USAID official, field offices have inadequately trained staff to help support the compliance officer, and local contractors are unfamiliar with USAID environmental requirements. As a result, the compliance officer's workload is difficult to manage, contributing to the delays in completing a fixed-amount reimbursement agreement.

To provide support for environmental compliance, USAID/Pakistan solicited proposals for an indefinite quantity contract for architectural and engineering services. After it is awarded, a mission technical office can use the contract to obtain professional services to assist in environmental compliance. Services would include data collection, initial environmental evaluations and environmental assessments, document completion, and monitoring of environmental mitigation during execution of work. The need for outside assistance was important because mission technical offices cannot rely solely on the environmental compliance officer for support in their projects. While the compliance officer can offer some guidance, the position calls for an independent review and approval of compliance with all U.S. Government regulations. There must be a clear separation of duties. The indefinite quantity contract will provide the additional support and help reduce delays in monitoring environmental compliance.

Because the environmental assessments did not comply with USAID regulations, nearly 5 months passed before the first fixed-amount reimbursement agreement was completed¹ and reimbursements issued. The delay strained the limited working capital of the FATA Secretariat and Frontier Works.

***Recommendation 1.** We recommend that USAID/Pakistan designate one person in each technical office who has received training to oversee environmental compliance for projects and activities.*

***Recommendation 2.** We recommend that USAID/Pakistan identify projects planned for the next 3 years to determine whether USAID/Pakistan has sufficient support and technical expertise for environmental compliance.*

Mission Did Not Tailor Capacity-Building Contract to Quick Impact Projects

According to USAID policy, when using a fixed-amount reimbursement agreement, the mission director or the designee is responsible for determining whether the recipient government's procurement system is adequate for the fixed-amount reimbursement agreement activity or whether the mission should oversee procurement transactions (ADS 317.3).

¹ The second fixed-amount reimbursement agreement was approved in February 2011.

To assess the FATA Secretariat's financial management capacity in handling a fixed-amount reimbursement agreement, USAID/Pakistan contracted with an accounting firm to conduct a preaward assessment. The assessment noted that fixed-amount reimbursement agreements would be appropriate means for government-to-government funding with the FATA Secretariat, despite the need for (among other things) limited financial management support. However, in April 2010, USAID/Pakistan awarded a 1-year, \$817,000 contract to Ernst & Young Ford Rhodes Sidat Hyder (EYFRSH)—an accounting firm—to build capacity in the *entire* FATA Secretariat for managing *all* donor funding. This scope of work should have been tailored to the FATA Secretariat's project management unit handling Quick Impact Projects in South Waziristan.

This contract was the first capacity-building contract managed by the mission's Office of Financial Management, and the office made mistakes in drafting the contractor's scope of work. Due to the broad scope of work to build capacity, in October 2010, the FATA Secretariat limited EYFRSH support to the project management unit handling the Quick Impact Projects, no longer supporting the operations of the entire FATA Secretariat. This change meant that provisions within the original scope of work were no longer relevant.

In response to the scope of work being too broad, the mission reduced some work in the contract (e.g., the information technology component, 88 percent of the contract, was eliminated). At the same time, the contractor was still trying to obtain guidance from the mission regarding its contract because the capacity-building scope of work remained too broad for Quick Impact Project activities.

All these changes in the scope of work created delays. Over 8 months on the 12-month contract passed with six of the seven deliverables far behind schedule. To build capacity, the contractor sent only one employee to the FATA Secretariat to provide direct but limited financial and management support to the project management unit, which proved to be sufficient for the road activities. Due to the inappropriate scope of work, EYFRSH accrued \$197,241 in expenditures with most deliverables still outstanding by the end of December 2010.

Recommendation 3. *We recommend that USAID/Pakistan revise the scope of work and reduce the contract amount for financial and management support for the Quick Impact Projects in South Waziristan.*

Contractor Lacked a Code of Business Ethics and Conduct

Because reimbursement is based on completed subprojects rather than on actual costs for fixed-amount reimbursement agreements, USAID policy requires that either USAID or contractors working on behalf of USAID provide assurance that subprojects are executed according to plans and specifications. Assurance is obtained through inspection and certification of the projects. Any savings from the estimated costs that were agreed on by all parties will accrue to the recipient country or organizations. Therefore, it is particularly important that attention be given to avoid any possible collusion between implementers working on behalf of the recipient country and inspection personnel working on behalf of USAID (ADS Supplemental 317).

To this end, the Federal Acquisition Regulation requires that contractors have a written code of business ethics and conduct made available to employees; an ongoing business ethics

awareness and compliance training program; and an internal control system with a periodic review of practices, procedures, and policies for compliance (Clause 52.203–13). The mission added this regulation to the contract for the inspection personnel working on behalf of USAID.

USAID's contractor for the Quick Impact Projects in South Waziristan is a local nongovernmental organization that was conducting site visits, monitoring progress of Quick Impact Projects activities, and inspecting and certifying completed subprojects for reimbursement. Although no ethical problems arose for this activity, USAID/Pakistan did not have policies or procedures for this contractor regarding ethical standards and conduct when working with the Pakistani Government and its implementers. Furthermore, the contractor did not have its own code of business ethics and conduct and lacked procedures for making employees aware of USAID's policies on ethics and conflicts of interest.

According to the mission, it did not follow the agency directive to avoid possible collusion because it was not familiar with the provision. USAID/Pakistan has not used many fixed-amount reimbursement agreements in the past, and the mission's contracting office is generally not involved in government-to-government agreements. Also, the mission did not monitor whether the contractor followed the contract provision on business ethics and conduct. To help address these types of issues, USAID headquarters recently initiated the Compliance and Oversight Division for Partner Performance, in the Office of Acquisition and Assistance, to help missions monitor contract compliance, including ethical concerns such as conflicts of interest.

USAID/Pakistan has not taken the necessary steps when using fixed-amount reimbursement agreements to avoid potential collusion between the contractors that inspect and certify compliance for reimbursement and the implementers that work on behalf of the Pakistani Government. As a result, the likelihood of collusion increases. Policies on ethical conduct and conflicts of interest would help reduce possible collusion between and other violations by all parties involved in a fixed-amount reimbursement agreement.

Recommendation 4. We recommend USAID/Pakistan verify that the USAID contractor, Associates in Development, has a code of business ethics and conduct that meets USAID standards and regulations.

Recommendation 5. We recommend that USAID/Pakistan provide implementers with copies of USAID's policies on ethics and conflicts of interest, and with written explanations and examples of potential conflicts.

Recommendation 6. We recommend that USAID/Pakistan, in cooperation with USAID's Compliance and Oversight Division for Partner Performance, designate personnel to provide guidance on conflicts of interest and to monitor implementers' compliance with ethics policies and procedures.

Contracting Officials Did Not Document Contract Files or Communicate Adequately

As a sponsor of the Quick Impact Projects, USAID is responsible for monitoring the use of its support for projects and activities in accordance with 22 CFR 226. As part of the responsibility, the Federal Acquisition Regulation states that documentation in contract files shall be sufficient to constitute a complete history of the transaction to provide a complete background for

decisions made, to support actions, and to provide information for reviews, investigations, litigation, or congressional inquiries (FAR 4.801 (b)). Copies of communications with contractors must be provided to the contracting officer so that the contracting officer knows about the contractor's performance and can avoid potential claims or disputes. Contract documentation is important to show that the mission is protecting the U.S. Government's interests.

At the beginning of the audit, contract files were missing critical documentation such as branding and marking plans; site visit reports; meeting notes; and correspondence with contractors, including documentation related to extensions and justifications. In addition, contracting officers and their technical representatives were not regularly communicating with one another on the status of the work. For the Quick Impact Projects, there were two contracts besides the government-to-government fixed-amount reimbursement agreement—a contract with EYFRSH for capacity support and a contract with Associates in Development for monitoring and evaluation. Although the technical representatives are responsible for the day-to-day operations of the work under the two contracts, the contracting officers need to remain actively engaged in the status of the project. In one instance, there was an apparent disconnect between the contracting officer and the monitoring and evaluation project because the officer maintained only “administrative oversight” of the award rather than remaining engaged in the contractor's work performance. In another instance, contract deliverables were far behind schedule because the estimated contract price was escalating, and the scope of work needed to be changed to reflect current circumstances. With communications limited, the contracting officer could not timely and prudently respond to the issues arising in the contract.

Also, technical representatives were not maintaining a complete history of contract transactions or apprising the contracting officer of developments. The mission noted that some technical representatives were new, but the contracting officers neither limited the technical representatives' responsibilities based on their level of training or experience, nor made adjustments when the lack of documentation was brought to their attention. The contracting officers' detachment led to problems in the technical representatives' communications with contractors: one technical representative wrongly instructed a contractor to limit the scope of work, jeopardizing the deliverables of the contract.

As a result of contracting officials not maintaining comprehensive contract records and not having regular communications, contractual oversight slipped. After more than 8 months had passed on the 12-month contract, deliverables were far behind schedule, and implementers lacked plans for branding and marking activities. These examples not only signal an ineffective use of resources, but also deviate from federal regulations on maintaining government contract files.

Recommendation 7. *We recommend that USAID/Pakistan develop and implement a plan for periodic internal review of contract files for a complete history of contract transactions and all communications with contractors. Results of the review should be noted for corrective action.*

Mission Did Not Monitor Implementers' Branding and Public Announcement Efforts

Mission employees involved in program implementation must ensure that implementing partners communicate that the USAID-funded foreign assistance is from the American people, according to ADS 320.3.1. Therefore, foreign assistance must be branded through use of a branding strategy and marked with a marking plan. In addition, the mission should inform host-country government officials and their implementing partners about USAID's marking requirements and the host-country government's responsibilities, and negotiate changes as needed (ADS 320.2a(3)). Failure to meet the marking requirements may be considered noncompliance with the contract, assistance award, or other USAID funding mechanism. Exceptions and waivers to the branding and marking requirements are available, if requested by the awardees and approved by the mission.

Branding and marking are critical components of USAID/Pakistan's strategy for publicizing our partnership with Pakistan and trying to improve the U.S. Government's image among the Pakistani people. Yet in South Waziristan, instability because of insurgents has made security a concern for implementers. Therefore, branding and marking of projects have been very difficult in the past several years.

On October 9, 2007, USAID instituted a blanket waiver for branding in FATA because of security concerns for persons working on USAID-funded projects. However, on September 17, 2010, the mission rescinded all prior waivers for branding and marking of USAID projects in Pakistan until further review. After his visit in September 2010, the USAID Administrator requested that USAID/Pakistan brand aggressively.

In addition, according to the implementation letter for the Quick Impact Projects in South Waziristan, dated December 31, 2009, the FATA Secretariat was required to ensure broad public awareness of the activities, including specifications and cost. The letter noted that the FATA Secretariat should use all print and electronic media to publicize the programs and activities, and organize appropriate public ceremonies and events to highlight major milestones and accomplishments. The implementation letter further stated that additional details concerning publicizing and marking USAID's contribution to the activities would be provided in subsequent implementation letters.

However, Quick Impact Project contractors had no branding and marking plans or any documented exceptions or waivers, although one contractor did submit its initial plan during the audit. In addition, the mission provided no further instructions or plans to the FATA Secretariat for the public recognition of the road activities. Asked about further instructions, the mission noted that some form of public awareness by the FATA Secretariat will occur for the roads, but these plans were still being formulated during the audit.

This deficiency occurred because the mission did not monitor to ensure that the contractors had branding and marking plans or exceptions or waivers, due to security concerns. Furthermore, the mission did not monitor public awareness and did not provide the FATA Secretariat with any additional details on publicity as specified in the December 31, 2009, implementation letter. As a result, nearly a year has passed since the start of the road activities under the Quick Impact Projects, and opportunities have been lost to raise public awareness of this highly visible USAID-funded project done in partnership with the Pakistani people.

Recommendation 8. *We recommend that USAID/Pakistan develop and implement a plan to monitor and document the status of branding and marking plans of contractors working on the Quick Impact Projects in South Waziristan, and provide training as necessary for compliance with Automated Directives System 320.*

Recommendation 9. *We recommend that USAID/Pakistan provide additional details to the Federally Administered Tribal Areas Secretariat concerning publicizing and marking USAID's contribution to the Quick Impact Projects in South Waziristan as specified in the implementation letter dated December 31, 2009.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with all recommendations included in the draft report. Having evaluated the mission's response and supporting documentation to the draft report, we determined that final actions have been taken on six recommendations, and management decisions have been reached on the remaining three recommendations. The status of each of the nine recommendations is shown below:

- Final action—Recommendations 1, 2, 3, 4, 6, and 7.
- Management decision—Recommendations 5, 8, and 9.

Recommendation 5. The mission agreed with the recommendation. The mission will circulate to implementers USAID guidance on ethics and conflicts of interest as relevant to USAID award recipients by December 31, 2011.

Recommendation 8. The mission agreed with the recommendation. A new monitoring and evaluation contract will be in place by July 2011. This contract will monitor the compliance of implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements as identified in their agreement and agency guidance.

Recommendation 9. The mission agreed with the recommendation. USAID/Pakistan will engage a media support contractor to ensure wider dissemination of information about the range and impact of our assistance programs. USAID/Pakistan will assist the FATA Secretariat in publicizing and marking USAID's contribution to programs in FATA by December 31, 2011.

We consider that management decisions have been reached on Recommendations 5, 8, and 9. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

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 Office of Inspector General conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the objective. We believe that the evidence obtained provides that reasonable basis. The purpose of this audit was to determine whether USAID/Pakistan's road rehabilitation and reconstruction activities under the Quick Impact Projects in South Waziristan were achieving their main goal of rebuilding selected roads. The audit was conducted at USAID/Pakistan in Islamabad, covering the program from December 2009 through February 2011. According to the implementation letter of December 31, 2009, USAID committed to providing \$55 million directly to the FATA Secretariat to undertake Quick Impact Projects—to rebuild roads, develop water infrastructure, and improve power systems. The purpose of the projects is to generate broad-based economic growth through infrastructure. USAID advanced \$8.25 million for design and mobilization with a pro rata amount deducted for each payment under a fixed-amount reimbursement agreement.

USAID's estimated contribution for the first phase of roadwork under Quick Impact Projects is \$25 million. The FATA Secretariat elected to undertake five road activities spanning 519 kilometers. At the time of this audit, 215 kilometers of road had been funded, with approximately \$13.7 million expended in addition to \$2.47 million as the estimated amount of the advance allocated to the road activities. The road activities began in February 2010, and the mission anticipates the completion of this phase in October 2011. In addition, USAID hired Ernst & Young Ford Rhodes Sidat Hyder to assist in capacity building for the FATA Secretariat. The contract amount was \$817,000 for a 12-month period with \$197,000 expended as of December 31, 2010. An engineering firm, Associates in Development, was also hired for 18 months to provide monitoring and certification of compliance on behalf of USAID/Pakistan at an initial cost of \$3.43 million with \$2 million committed and \$1.272 million expended as of December 31, 2010.

To answer the audit objective, we reviewed mission documentation related to managing and monitoring the Quick Impact Projects: strategic agreements; implementation letters; preaward assessments; contracts; performance measures; actual performance results; certifications required under the Federal Managers' Financial Integrity Act of 1982;² and site visit, monitoring, and certification reports prepared by contractors. As part of the audit, we assessed management controls used by USAID/Pakistan to monitor program activities. We assessed whether the mission conducted and documented site visits, reviewed monitoring and progress reports, assured contract compliance, and compared reported progress with planned progress. We also interviewed mission officials, contractors, and government officials. From October 13, 2010, through February 9, 2011, audit fieldwork was performed at the USAID/Pakistan mission, by telephone conference, and at one implementer's main program office located in Islamabad. Access to South Waziristan is limited because of security concerns; therefore, a site visit for this audit was not conducted. Besides reviewing documentation, the audit team relied on representations, both oral and written, made by professional engineers working for USAID/Pakistan and contractors. In addition, the audit team reviewed photographs from the

² As codified in 31 U.S.C. 1105, 1113, and 3512.

Government of Pakistan, the mission, and the USAID contractor providing certifications of work completed.

Methodology

To answer the audit objective and determine whether the road activities were achieving their main goal, the audit team interviewed officials from USAID/Pakistan, Ernst & Young Ford Rhodes Sidat Hyder, Associates in Development, and the FATA Secretariat, either in person or through telephone conferences. Through these interviews, we gained an understanding of the program and determined the roles and responsibilities of USAID/Pakistan and the implementing partners. We also learned of the reporting controls, procedures, and processes in place for monitoring the program.

In planning and performing the audit, the audit team assessed management controls used by the mission to manage the program. These controls included criteria set out in agency regulations, the contracts, and implementation letter(s). We also reviewed all relevant documents produced by the implementers, and documents and correspondence from mission officials. These documents provided an overview of the status of road activities under the Quick Impact Projects in South Waziristan. Additionally, the auditors examined the mission's fiscal year 2010 annual self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982, to determine whether the assessment cited any relevant weaknesses.

We reviewed applicable laws, regulations, and standards including the Foreign Assistance Act of 1961, as amended; the Code of Federal Regulations; the Federal Acquisition Regulation; and USAID's Automated Directives System (Chapters 240, 317, and 320). The audit relied on the following sources of evidence: internal controls, prior audits, implementation letters, contracts, and interviews with and information submitted by implementing partners and USAID/Pakistan.

In validating the program's reported results, the auditors checked supporting information that served as verifications and certifications to USAID/Pakistan for fixed-amount reimbursement agreements. In addition, we reviewed documentation from the FATA Secretariat and vouchers from its implementing partners.

MANAGEMENT COMMENTS



MEMORANDUM

Date: May 17, 2011

To: Steven H. Bernstein
Director, OIG/Pakistan

From: Andrew Sisson /s/
Mission Director

Subject: Management Comments
Audit of USAID/Pakistan's Road Rehabilitation and Reconstruction activities
under the Quick Impact Projects in South Waziristan
(Report No. G-391-11-XXX-P)

Reference: Steven H. Bernstein's memo dated April 5, 2011
Draft Audit Report no. G-391-11-XXX-P dated April 5, 2011

In response to the referenced draft report, please find below management comments on the nine recommendations included therein:

Recommendation No 1: We recommend that USAID/Pakistan designate one person in each technical office who has received training to oversee environmental compliance for projects and activities.

Management Comments:

Mission management concurs with the recommendation. USAID/Pakistan now has four individuals whose primary roles include environmental review responsibilities. The Mission Environmental Officer has also provided direct training to Mission (FSN, USDH, USPSC, and TCN) staff who manages programs to improve their monitoring environmental compliance for projects and activities. Additionally, the Regional Environmental Advisor (located in Almaty, Kazakhstan) provided training to supervisors on their environmental responsibilities and their supervisory responsibilities.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 2: We recommend that USAID/Pakistan identify projects planned for the next 3 years to determine whether USAID/Pakistan has sufficient support and technical expertise for environmental compliance.

Management Comments:

Mission management concurs with the recommendation. With a new re-focused sectoral strategy approved by the Deputy Secretary of State, the Mission is now in a position to plan programs over the next 3 years. These strategies coupled with a management unit reduction exercise which was completed in March 2011, the Mission has increased its awareness of the environmental compliance issues related to the portfolio. We have adjusted programs within the FATA/KP region of Pakistan to ensure that the projects will be compliant with Regulation 216. Additionally, with new Mission senior management in place, the project design and approval process will ensure that environmental compliance is a key issue for obligation of funding, so as not to impact our ability to implement projects. Additionally, increased environmental staffing (as noted above) and training of all staff on environmental compliance enhances our capacity to ensure environmental compliance.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 3: We recommend that USAID/Pakistan revise the scope of work and reduce the contract amount for financial and management support for the Quick Impact Projects in South Waziristan.

Management Comments:

Mission management concurs with the recommendation. The contract with Ernst & Young (E&Y) for financial and management support for the Quick Impact Projects in South Waziristan was terminated for convenience and the task of capacity building of PMU has been handed over to the Assessment & Strengthening Program (ASP). Associates in Development (AiD), a partner in the ASP Program is working on the mapping report produced by E&Y with a reduced scope of capacity building of PMU which has been agreed by the Director General- Directorate of Project, FATA Secretariat and USAID technical team at Peshawar.

With reference to findings presented in the audit report, Mission would like to place on record that the scope of work for E&Y was agreed by the USAID technical team and the management of FATA Secretariat for the capacity building of the whole of FATA Secretariat and the mapping report was prepared and approved for the same but afterwards on the direction of the USAID technical team and the FATA Secretariat management, the mapping exercise was restricted to the capacity building of the PMU. The scope of work was specifically designed to accommodate variations in the overall scope dependent on the requirements of the capacity building initiative.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 4: We recommend USAID/Pakistan verify that the USAID contractor, Associates in Development, has a code of business ethics and conduct that meets USAID standards and regulations.

Management Comments:

Mission management concurs with the recommendation. The contract with Associates in Development was modified to incorporate the standard clause for code of business ethics and conduct that meets USAID standards and regulations. The modification to the contract is attached as Annex A.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 5: We recommend that USAID/Pakistan provide implementers with copies of USAID's policies on ethics and conflicts of interest, and with written explanations and examples of potential conflicts that may arise.

Management Comments:

Mission management concurs with the recommendation. Mission will devise and circulate to implementers guidance on ethics and conflicts of interest as relevant to USAID award recipients by December 31, 2011. PRM shall be responsible for all G2G activities in this respect whereas OAA would be responsible for all non-G2G actions.

Recommendation No 6: We recommend that USAID/Pakistan, in cooperation with USAID's Compliance and Oversight Division for Partner Performance, designate personnel to provide guidance and monitor compliance of conflicts of interest and ethics policies and procedures with implementers.

Management Comments

Mission management concurs with the recommendation. The OAA Director in Pakistan, in cooperation with the Compliance and Oversight Division for Partner Performance in Washington, will be the designated person to provide guidance and monitor compliance of conflicts of interest and ethics policies and procedures with implementers. Similarly RLA would be the focal person for all issues pertaining to monitoring and compliance of conflicts of interest and ethics in G2G arrangements.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 7: We recommend that USAID/Pakistan develop and implement a plan for periodic internal review of contract files for a complete history of contract transactions and all communications with contractors. Results of the review should be noted for corrective action.

Management Comments:

Mission management concurs with the recommendation. Mission has developed a plan for quarterly internal review of contract files, attached as Annex B. This document provides guidelines for reviewing the COTR/AOTR files on a quarterly basis. The Acquisition & Assistance Specialist is responsible for reviewing the files in accordance with the responsibilities mentioned in the COTR/AOTR appointment letter.

Therefore, Mission requests closure of this recommendation upon issuance of the final report.

Recommendation No 8: We recommend that USAID/Pakistan develop and implement a plan to monitor and document the status of branding and marking plans of contractors working on the Quick Impact Projects in South Waziristan, and provide training as necessary for compliance with Automated Directives System 320.

Management Comments:

Mission management concurs with the recommendation. A new Monitoring and Evaluation (M&E) contract will be in place by July 2011. This contract will include responsibilities for the M&E contractor to monitor the compliance of all implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements as identified in their agreement and ADS 320.

Recommendation No 9: We recommend that USAID/Pakistan provide additional details to the Federally Administrated Tribal Areas Secretariat concerning publicizing and marking USAID's contribution to the Quick Impact Projects in South Waziristan as specified in the implementation letter dated December 31, 2009.

Management Comments:

Mission management concurs with the recommendation. As noted under the response to Recommendation 8, an M&E contract will soon be awarded. Additionally, USAID/Pakistan will be engaging a media support contractor to ensure wider dissemination of information about the range and impact of our assistance programs. USAID/Pakistan will prepare a briefing from Mission staff engaged in development outreach and communications to the FATA Secretariat about publicizing and marking USAID's contribution to programs in FATA by December 31, 2011.

Annex:

- A. Modification to AiD contract
- B. Plan for review of COTR/AOTR files

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