



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PAKISTAN'S SINDH BASIC EDUCATION PROGRAM

AUDIT REPORT NO. G-391-14-003-P
MARCH 21, 2014

ISLAMABAD, PAKISTAN



Office of Inspector General

March 21, 2014

MEMORANDUM

TO: USAID/Pakistan Mission Director, Gregory C. Gottlieb

FROM: Office of Inspector General/Pakistan Director, William Murphy /s/

SUBJECT: Audit of USAID/Pakistan's Sindh Basic Education Program
(Report No. G-391-14-003-P)

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

The audit report contains five 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 the mission has taken final action on Recommendations 1, 2, and 3 and made management decisions on Recommendations 4 and 5. Please provide evidence of final action on them to the Audit Performance and Compliance Division.

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

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SUMMARY OF RESULTS

Although development experts note that education is important to economic growth and democracy,¹ Pakistan's education sector is weak. It has been neglected in terms of public and private spending. Sindh, the second-largest province in Pakistan and the country's economic hub, exemplifies the problem.

Education indicators in Sindh are low. Two-thirds of women and one-third of people above the age of 10 are illiterate. Approximately 40 percent of school-aged children (approximately 4 million children ages 5 through 12) are not in school.² Poverty and inadequate infrastructure are the main obstacles to attendance: the majority of schools in Sindh lack basic facilities such as toilets, electricity, and running water.

To assist the Sindh Government in enacting educational reforms and improving the learning environment, on September 21, 2011, USAID signed a 5-year agreement with the Sindh Government to implement the Sindh Basic Education Program. Under the agreement, the mission plans to provide \$155 million in support of the program. Its goal is to increase and sustain student enrollment in primary, middle, and secondary schools in targeted locations by developing a school environment conducive to teaching and learning. The program has five components:

1. Construction of schools in areas affected by the 2010 floods
2. Improvement and consolidation of schools through school construction
3. Improvement of early-grade reading in primary schools
4. Community mobilization³
5. Technical assistance to the Department of Education

USAID agreed to provide the Sindh Government with up to \$81 million in direct government-to-government assistance to finance Components 1 and 2 for school construction. The remaining \$74 million was to fund direct agreements between USAID and outside organizations (such as contractors and nongovernmental organizations) to implement Components 3 through 5, do monitoring and evaluation, and supervise construction. USAID and the Sindh Government agreed that the program would focus activities in seven target districts in northern Sindh—Dadu, Jacobabad, Kashmore, Kamber Shahdadkot, Larkana, Khairpur, and Sukkur (shown in the map on the following page)—as well as in selected areas in the city of Karachi. As of August 31, 2013, USAID had obligated \$64,695,718 and disbursed \$2,358,416 for the program.

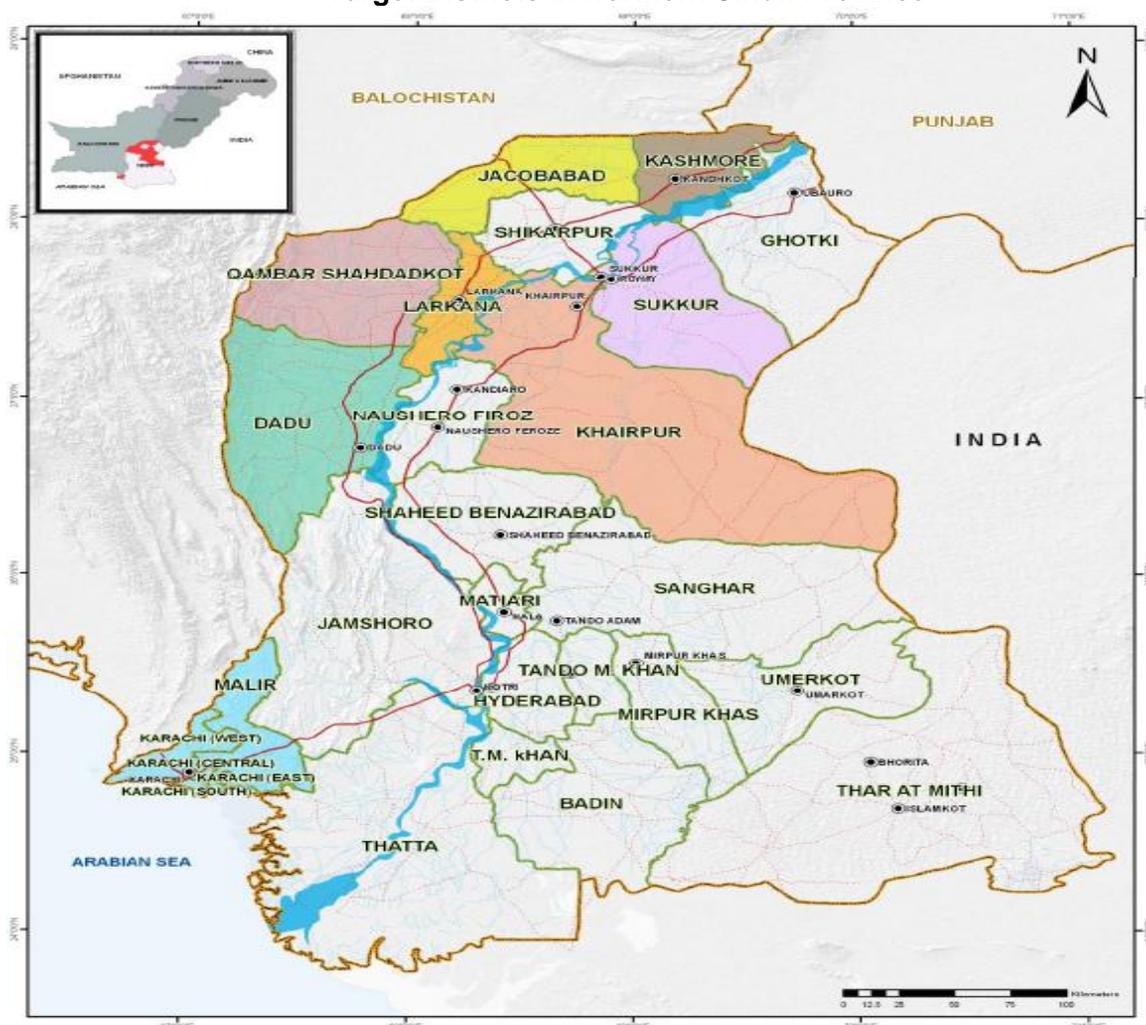
USAID's Office of Inspector General in Pakistan conducted this audit to determine whether the Sindh Basic Education Program was achieving its goal of increasing and sustaining student enrollment in primary and secondary schools in targeted areas.

¹ USAID Education Strategy 2011-2015.

² Education and Literacy Department, Government of Sindh Planning Commission document for the Sindh Basic Education Program.

³ The program works to engage communities in designing and building new schools, increasing girls' enrollment, and improving the nutrition of children.

Target Districts in Northern Sindh Province



Source: USAID and Halcrow Pakistan Ltd.

Two years into the 5-year agreement, USAID's program manager and his team had established a good working relationship with Sindh Government officials. A good rapport is important in government-to-government assistance, which works directly through the host country's systems to achieve desired outcomes.

The program manager and his team work at USAID's regional office in Karachi. This location affords easy access to Sindh Government officials, enabling a close partnership. The team communicates with officials daily, and the two parties meet every other week to discuss program progress. Team members have assisted the Sindh Government in establishing the Project Management and Implementation Unit. This unit, when fully staffed and functional, will be responsible for implementing and managing the program for the government.

Although this team has laid the foundation for implementing the program's school construction component, the program was not achieving its goal. It had built no schools and made very little, if any, improvement in early-grade reading, community mobilization, or technical assistance to the Department of Education. Without achievements in these areas, the program has not made

progress in developing a school environment conducive to teaching and learning, which would increase and sustain student enrollment.

The audit disclosed the following weaknesses, which provide insight on the minimal progress:

- Implementation delays increased construction prices by \$1.3 million for six schools (page 5). The mission, through its contractor, developed cost estimates in September 2012 for the construction of six schools. However, the Sindh Government was unable to solicit bids until June 2013, and then from only five firms. Increased raw material prices and the limited pool of eligible firms drove up bid prices.
- The program's effort to use a local implementer did not succeed (page 6). Following the guidance of the Enhanced Partnership with Pakistan Act, in April 2012 the mission selected a local Pakistani firm to implement activities under the reading component. Seven months later, however, the mission terminated the agreement for lack of progress. The mission then decided to solicit bids from U.S. or international organizations, but not until August 2013. At the time of the audit, the program had made no progress on the reading component.
- Capacity building has not been successful (page 8). According to the technical office, operational manuals provided for the Project Management Implementation Unit were too generic to be of use, and recruitment efforts filled less than half the open positions.
- The mission set an unrealistic target for improving literacy (page 9). The mission's target of improving the literacy and numeracy of 750,000 students in Grades K through 5 exceeds the number of students enrolled by 37 percent.
- The mission did not deobligate funds promptly (page 11). After terminating a cooperative agreement, the mission did not make any effort to reprogram any of the \$10 million obligated for it.
- The agreement with the Sindh Government requires extension (page 11). Although the program has made little progress, the working relationship is solid, the goal is important, and activities are poised to take off. Extending the agreement now will prevent interrupting activities later.

To address these issues, we recommend that USAID/Pakistan:

1. Implement a plan to closely monitor construction and approval to avoid additional cost overruns (page 6).
2. Require new local implementers to provide a canceled check showing their account name and number before requesting payment (page 8).
3. Implement realistic targets for improving literacy and numeracy (page 10).
4. Deobligate the excess funding for the Teachers' Resource Centre and reprogram the funds for better use (page 11).
5. Determine whether to extend the program as little progress has been made to date (page 12).

Detailed findings follow. The audit's scope and methodology appear in Appendix I. Management comments appear in Appendix II, and our evaluation of these comments is on page 13.

AUDIT FINDINGS

Implementation Delays Increased Construction Prices by \$1.3 Million for Six Schools

The agreement states that USAID will reimburse the Sindh Government a fixed amount for the successful completion of school construction milestones in accordance with specifications and standards outlined in implementation letters. The letter dated June 14, 2013, states that USAID will finance the construction of six schools in the district of Khairpur for a fixed amount not to exceed \$4,582,000. Should the actual cost of the construction exceed this amount, the Sindh Government would bear the risk. Conversely, it would benefit if the actual cost were less.

However, USAID signed an action memorandum on August 27, 2013, increasing the reimbursable amount for the construction of these six schools from \$4,582,000 to \$5,888,000, an increase of \$1.3 million or 29 percent. Although unusual, this action is allowable according to USAID's guidance, the Automated Directives System (ADS).⁴

The price increase was due to the Sindh Government's delay in soliciting bids. USAID contracted with Halcrow Pakistan Ltd. (a Pakistani firm) to provide architectural and engineering services—planning, design, and construction oversight for schools built or reconstructed under the program. Halcrow submitted designs and cost estimates for the first set of six schools in the Khairpur District in September 2012. However, the Sindh Government, which is responsible for selecting and hiring a construction firm to build the six schools, was unable to solicit bids immediately for many reasons:

- *Staffing.* Excessive turnover in high-level government staff precluded continuity in the Project Management and Implementation Unit. Additionally, from May 2012 through July 2013, the Government of Pakistan took away civil service employees' ability to earn "allowances" (extra pay) by working in the unit while carrying out their regular duties. The reinstatement of allowances in June 2013 resolved this hiring obstacle.
- *Planning document.* The Sindh Government was slow to develop and approve the official planning document for the six schools. This document details the technical parameters and costs for constructing a set of schools (a set including from 6 to 13 schools within a specific district radius). The document was not completed until March 2013.
- *Land titles.* Obtaining land title documents for the schools further delayed the solicitation.
- *Pakistani general elections in May 2013.* Many provincial government officials throughout Pakistan were reluctant to take any actions that would bind a future government. Therefore, many initiatives, including the Sindh Basic Education Program, came to a standstill before the elections.

⁴ ADS 103.3.27.1.a, "Office of Afghanistan and Pakistan Affairs Mission Directors"; and ADS 103.3.5.1.c.1.a, "Program implementation and evaluation authorities."

For these reasons, the Sindh Government was unable to solicit bids from construction firms until June 24, 2013—approximately 10 months after Halcrow submitted initial cost estimates. Only five Pakistani firms were prequalified to bid, and the bids received were significantly higher than Halcrow’s September 2012 estimates. By June 2013, increased raw material prices had driven construction costs higher. In addition, the limited pool of contractors may have affected bid prices.

The result was a \$1.3 million cost increase for the construction of six schools in the Khairpur District, from an estimate of \$4,582,000 to \$5,888,000. USAID agreed to this price increase for several reasons. First, mission officials were aware of the causes of the price increase, outlined above, and believed the program had taken steps to mitigate them in the future. Second, officials were eager to realize progress of some kind since, 2 years after the signing of the agreement, program objectives were not being met. Agreeing to the increased cost would allow the Sindh Government to award the construction contract and begin construction immediately. Finally, mission officials formally conveyed in writing to the Sindh Government that this increase in the fixed reimbursable amount was a one-time, extraordinary measure.

The increased cost could affect the total number of schools the program is able to build or reconstruct. The agreement states USAID will provide up to \$81 million for school construction, and USAID estimated that would include approximately 120 schools at \$675,000 per school. This first set of six schools, however, will cost approximately \$981,000 per school, an increase of 45 percent. Thus, if costs for subsequent construction are as high, the program will have to scale back to 83 schools instead of the planned 120.

However, USAID and the Sindh Government were working to mitigate this price increase and delay. A second round of prequalification expanded the pool of eligible contractors from 5 to 16. USAID and the Sindh Government officials were hopeful this increase in the number of prequalified construction firms would enhance competition and drive overall bids down. Furthermore, the Sindh Government completed and approved the second planning document for the construction of ten additional schools in the Khairpur District in June 2013. This action demonstrates that the government now has a system to move forward more quickly. Although these factors have been addressed and it was in the mission’s authority to increase the agreed-on fixed reimbursement amount, the increase goes against the purpose of such agreements. We therefore make the following recommendation.

***Recommendation 1.** We recommend that USAID/Pakistan implement a plan to closely monitor construction and approval to avoid additional cost overruns.*

Effort to Use Local Implementer Did Not Succeed

The Enhanced Partnership with Pakistan Act of 2009 emphasizes the use of Pakistani firms when implementing programs. In accordance with the act, the mission limited competition for the award to implement the program’s reading component to Pakistani organizations. After signing the program agreement with the Sindh Government on September 21, 2011, USAID awarded Teachers’ Resource Centre (TRC) a 5-year, \$30 million cooperative agreement on April 26, 2012, to implement the program’s reading component. TRC is a small, nonprofit, nongovernmental Pakistani organization established in 1986 to respond to the country’s low educational standards.

The goal of the reading component is to support Sindh Government institutions' efforts to improve reading and numeracy among students in early grades. The mission set a target of reaching 750,000 students in seven provincial districts and Karachi. Under the terms of the cooperative agreement, TRC was to work with Save the Children to implement this activity.

The mission carried out a survey of TRC before awarding the cooperative agreement and concluded TRC was a "high-risk recipient." This was largely because TRC is a small, local organization—its staff consists of 18 full-time and 7 part-time personnel, and its annual budget is around \$300,000—that had never been the prime implementer of a U.S. Government-funded program. To mitigate the risk associated with its inexperience, TRC partnered with Save the Children to help build its capacity to implement program activities according to USAID financial management and monitoring standards.

However, the mission abruptly terminated the cooperative agreement with TRC on December 7, 2012, approximately 7 months after awarding it. Mission officials said they acted because of a lack of progress and the organization's inability to work with Save the Children. A TRC official we spoke with disagreed with this assessment. She said the partnership with Save the Children was working and that she was surprised when the mission decided to cancel the cooperative agreement. Regardless, the incident highlights the systemic problem of wanting to award agreements to local organizations that have no experience implementing such programs under the rigors of U.S. Government recording and reporting requirements. Complying with the myriad of U.S. Government regulations, and with reporting, monitoring, and internal control requirements, is not an easy task.

A major problem in the relationship surfaced when the mission tried to pay TRC. The mission was unable to provide the organization with any funding until November 6, 2012—a full 6 months after signing the cooperative agreement. TRC needed funds to hire staff, procure goods, and establish an office. The delay was caused by multiple discrepancies between the bank account name and number TRC gave USAID and the check issued by USAID. Because they did not match, TRC's bank rejected the check twice. Providing funding to organizations in Pakistan is time-consuming because, without a system of electronic funds transfers, all checks must be issued manually. Therefore, the payment process, even when working correctly, takes up to 3 weeks.

USAID relies on implementers to provide it with correct banking information. As of September 2013, the mission's Office of Financial Management had not required new implementers to provide a canceled check from their bank showing the correct account name and number. This information might have prevented payment delays.

After terminating TRC's cooperative agreement, the mission decided to take a different approach to implementing the reading component. The new funding mechanism would be a cost-plus-fixed-fee, completion-type contract⁵ valued at between \$23 million and \$25 million. Since the mission's initial strategy of selecting the most qualified Pakistani firm to implement the program was not successful, only U.S. or international organizations were solicited to bid. The mission issued a new request for proposals on August 31, 2013—almost 9 months after terminating TRC's cooperative agreement.

⁵ Defined by Federal Acquisition Regulation 16.306, "Cost-Plus-Fixed-Fee Contracts," as a type of "cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. . . . The completion form describes the scope of work by stating a definite goal or target and specifying an end product."

The program manager said the mission decided to delay the implementation of the reading component. This would allow reading activities to take place in conjunction with community mobilization and school construction, two areas just getting started. In this manner, reading activities would be integrated with other program elements and not operate independently.

Although the mission terminated TRC's cooperative agreement because of a lack of progress, the mission had not made any progress under this component as of the audit. In addition, the mission lost the opportunity to work with a highly respected local partner, which, while not experienced with USAID and U.S. Government reporting standards, has expertise in improving children's reading skills. Although unfortunate, it is up to the mission to determine the best approach when implementing activities and modify plans when suitable.⁶ We therefore make no recommendation on this change in approach. However, to address the problems that the program encountered in providing funding to the local partner, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Pakistan's Office of Financial Management require new local implementers to provide their office with a canceled check showing account name and number before requesting payment from the USAID disbursement office.*

Capacity Building Has Not Been Successful

According to program documents, the "Mission has structured the program to include a number of measures that will mitigate the dangers and ensure the successful implementation of the program." The most significant mitigating measure is capacity development. USAID provided support to the Sindh Government to implement the program through a Project Management and Implementation Unit. Component 5 of the program calls for technical assistance in financial, procurement, and administrative management. USAID/Pakistan chose to deliver this assistance through its Assessment and Strengthening Program (ASP).⁷

Accordingly, ASP was to provide support to the implementation unit. Support would include developing and presenting manuals for finance, procurement, human resources, and monitoring and evaluation, as well as recruiting ten support staff. However, neither effort was successful.

Officials in both the unit and USAID's technical office said the manuals were too generic to be useful to the implementation unit. For example, implementation unit personnel observed that the financial management manual only referred to the accounting manual of the Accountant General Pakistan Revenues (the central government accounting entity that reports federal transactions) and failed to address the unit's specific needs. Similarly, personnel in the technical office expressed concerns that ASP staff did not consider the program's performance management plan while designing the monitoring and evaluation manual.

Similarly, recruitment was unsuccessful. Of the ten planned positions, only four had been filled, and crucial ones such as the human resources specialist and the procurement specialist were still vacant. In June 2013, the mission decided to curtail ASP's involvement with the program.

⁶ ADS 202.3.4.2, "Mobilizing Inputs."

⁷ ASP is a \$44 million USAID-funded program to build the capacity of Pakistani organizations, both governmental and nongovernmental. Three Pakistani organizations—Rural Support Programmes Network, Associates in Development, and Lahore University of Management Sciences—implement it.

ASP did not succeed in providing capacity-building support for four main reasons:

1. ASP did not tailor the manuals to the unit's needs. Officials in the technical office said ASP was not able to customize its services to address the needs of the program. Officials said ASP only provided its standard services, and ignored the requirements of the program that it should have incorporated into the manuals. This concern was also expressed over the procurement courses offered by ASP.
2. Constant changes in the Government of Sindh's Department of Education affected ASP's performance. Both the Secretary of Education and the implementation unit director changed multiple times for political reasons. As a result, ASP did not receive continuous feedback from unit management while compiling the manuals.
3. ASP did not give the recruitment process the required attention. Neither the implementation unit nor USAID's technical office was satisfied with the pool of candidates that applied for the positions. According to the technical office, this was because ASP focused on hiring candidates locally rather than hiring at the national level. Only after the technical office insisted, because of the limited applicant response, did ASP expand its scope to the national level. However, this delayed the hiring process and the start-up of the newly established implementation unit.
4. There was also a communication gap between the ASP office in Karachi and USAID's technical office in Karachi. The ASP Karachi office did not talk directly to the USAID technical team. All communications went to the USAID agreement officer's representative for ASP in Islamabad.

The above factors stymied the implementation unit. The operational manuals had not been accepted, thus delaying program implementation. Further, because of the unavailability of the required personnel, implementation unit operations were delayed. As of the audit, the mission had neither a procurement specialist nor a procurement manual to guide the procurement process.

The mission planned to hire a firm whose sole task would be developing capacity support for the implementation unit. Because the mission curtailed ASP's involvement, we make no recommendation.

Mission Set an Unrealistic Target for Improving Literacy

According to ADS 203.3.9, "Setting Performance Baselines and Targets," technical offices should "set performance targets that are ambitious, but can realistically be achieved within the stated timeframe and with the available resources." In addition, USAID's Performance Monitoring and Evaluation TIPS No. 8, "Baselines and Targets," states: "Establishing quality baselines and setting ambitious, yet achievable, targets are essential for the successful management of foreign assistance programs."

As discussed in the previous finding, in April 2012 USAID launched the Sindh Reading Program. Seven months later, after terminating its agreement with TRC, it issued a request for proposals for a 5-year contract worth from \$23 million to \$25 million to assist in improving the reading and math skills of 750,000 primary school (Grades K through 5) students in selected

government schools. The program also seeks to improve the reading and math skills of 100,000 out-of-school children in seven districts of Sindh, including five towns in Karachi.

The 750,000 target, however, is unrealistic. It does not take into consideration an assessment of students actually enrolled in the targeted areas. In March 2012, USAID signed an agreement with Information Management and Mine Actions Program Inc. (iMMAP), a U.S. organization, to visit target districts and gather school data, including enrollment. The assessment revealed that the actual number of students enrolled in Grades K through 5 in the selected areas was approximately 475,000 or 37 percent (275,000) less than the target, as shown below.

**Student Enrollment Figures for Program’s Target Districts
as of December 31, 2012 (not audited)**

Grade	Male	Female	Total
K	45,398	35,245	80,643
1	70,144	46,006	116,150
2	53,178	33,159	86,337
3	43,452	26,169	69,621
4	40,880	23,484	64,364
5	36,275	21,268	57,543
Total	289,327	185,331	474,658

A key Sindh Government official working with USAID affirmed that the target is unrealistic. The official said it is difficult to work with so many students and have sustained impact. He said the mission must not focus on reporting high numbers of students but on working with a smaller, more manageable number and creating a positive model to replicate elsewhere.

Additionally, TRC officials expressed concerns about the ambitious target. They said the target of 750,000 students was too high to be achieved in 5 years and compromised the effectiveness of the program. To reach such a large number of students, instructors would have to spend less time with the children. And training enough teachers would be difficult.

In setting the target of 750,000 students, mission officials involved in planning the program had relied on numbers provided by Government of Sindh; however, according to the independent study conducted by iMMAP and financed by the mission, these numbers appear to have been inflated.

By establishing a target above the number of students enrolled, the mission has set an unreachable goal for itself and the implementer. With such an unrealistic target, the mission could put undue pressure on the implementer, compromise the quality of the program, and not achieve the desired result. Therefore, we make the following recommendation.

Recommendation 3. We recommend that USAID/Pakistan implement realistic targets for improving literacy and numeracy under the Sindh Basic Education Program.

Mission Did Not Deobligate Funds Promptly

ADS outlines circumstances in which obligations could have excess funding—for instance, when an activity is reduced in scope or terminated.⁸ Furthermore, when the precise amount is not known, the obligation should be recorded based on the mission’s best estimate, and adjusted when more accurate information becomes available.⁹

TRC’s \$30 million cooperative agreement with USAID was signed on April 26, 2012, and by June 30, 2012, USAID had obligated \$10 million. As discussed in a previous finding, the mission terminated the cooperative agreement on December 7, 2012. As of September 30, 2013, the mission had disbursed only \$152,390 to TRC and not initiated efforts to reprogram the remaining \$9.8 million unliquidated balance. A mission official said the mission was waiting for the results of a financial audit of the program before reprogramming any funding. However, USAID/Pakistan’s Office of Financial Management estimates that the amount of additional funding TRC may be entitled to claim could be \$200,000. Therefore, the mission could reprogram the remaining amount of approximately \$9.6 million.

By not deobligating the majority of the funds provided to TRC, the mission missed an opportunity to put these funds to better use. We therefore make the following recommendation.

Recommendation 4. We recommend that USAID/Pakistan deobligate the excess funding for Teachers’ Resource Centre under the Sindh Basic Education Program and reprogram the funds for better use.

Agreement Not Likely to Meet Targets Without Extension

The agreement between the Government of Sindh and USAID states that the program will end by September 30, 2016, or another date that the parties agree to in writing. This agreement is important not only to achieve the desired school construction and reconstruction goals, but also to increase reading, community mobilization, and capacity in the Department of Education. While these latter components are procured and managed directly by USAID, not through government-to-government assistance, work plans and activities must be done in consultation with the Sindh Government through the Project Management and Implementation Unit.

Two years after signing the agreement with the Sindh Government, no schools had been built, and very little progress had been made on the other components. While mission officials had informally discussed the possibility of extending the program, they had not held formal discussions with the Sindh Government about doing so.

Mission officials said their priority has been working with implementers and the Sindh Government to get program activities started. Therefore, there has not been sufficient time for USAID or the Sindh Government to discuss formally extending program activities, much less to make talks a priority.

Because the program made very little progress in the first 2 years, it will be extremely difficult for the mission, the Sindh Government, and implementers to achieve intended results in the

⁸ ADS 621.3.12.a.1, “Circumstances That May Result in Excess Funding.”

⁹ ADS 621.3.7, “Estimated Obligations.”

remaining 3 years. Executing a written extension now would prevent activity delays caused by trying to extend the agreement at the last minute. Additionally, the program manager said USAID has a very good relationship with the current government and should act promptly. Therefore, the audit makes the following recommendation.

Recommendation 5. *We recommend that USAID/Pakistan determine whether to extend the Sindh Basic Education Program, and, if decides to do so, extend the program as soon as possible to mitigate future activity delays.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with the five recommendations in the draft report. According to the information the mission provided in its response to the draft report, it took final action on Recommendations 1, 2, and 3, and made management decisions on Recommendations 4 and 5.

Recommendation 1. USAID/Pakistan agreed and has taken action. It stated that measures put in place, outlined in its Action Memo dated August 26, 2013, are producing results as evidenced from the tendering/bidding process for the schools to be constructed in the second batch. These measures include expanding the number of prequalified contractors and notifying the Sindh Government that this increase is a one-time extraordinary remedy. Therefore, the mission has taken final action.

Recommendation 2. USAID/Pakistan agreed and has taken action. The Office of Financial Management has adopted the practice of requiring all new local implementing partners to provide the USAID payment office either a copy of a check or a cancelled check showing the implementer's account name and number before requesting payment. Therefore, the mission has taken final action.

Recommendation 3. USAID/Pakistan agreed with the intent of the recommendation. The mission prepared an analysis and justification as to why they believe the target of 750,000 to be reasonable and achievable. The information provided in the analysis included how the current target was derived, the validity of the data sources used, and how grade-level reading competency would be achieved with such a large target population.

The mission provided a recalculation of primary education enrollment in each program district. Both the current and previous analyses indicate a net enrollment of 926,445 students in Grades K-5, against the unaudited 474,658 enrollment figure provided in this report. This discrepancy, the mission stated, was due to several factors, including:

- iMMAP figures presented in the report were a snapshot of attendance on the day numbers were collected, rather than enrollment, which typically exceeds attendance.
- iMMAP did not include data on 1,033 schools in all seven program districts.
- Mission figures also take into account projected annual enrollment for the next 5 years of the program. Given enrollment trends for the previous 3 years, the mission estimated that more than 150,000 new children would enroll every year in the target districts.

Therefore, mission officials stated that while the program target of reaching 750,000 children is ambitious, it is achievable. Having reviewed the further analysis and justification for the current target, we consider that the mission has taken final action.

Recommendation 4. USAID/Pakistan agreed with the recommendation and planned to take final action by January 31, 2014. The mission will keep \$500,000 in the award for closeout

expenses and deobligate the remaining funds. The proposed deobligation amount of approximately \$9 million will be applied to a new competitively bid contract. Accordingly, the mission has made a management decision.

Recommendation 5. USAID/Pakistan agreed with the recommendation and expected to take final action by June 30, 2014. The mission planned to enter into formal discussions with the Sindh Government to extend the activity agreement in January. Accordingly, the mission has made a management decision.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General/Pakistan conducted this performance audit in accordance with generally accepted government auditing standards. Government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objectives. We believe the evidence obtained provides that reasonable basis.

We based our conclusions on sources of information reviewed during the audit. These sources included interviews with staff from USAID/Pakistan, Sindh Government officials, and contractors involved in the program. Discussions took place in Karachi and Islamabad.

The objective of this audit was to determine whether the Sindh Basic Education Program was achieving its goal of increasing and sustaining student enrollment in primary and secondary schools in targeted areas. We conducted audit fieldwork from August 20 to October 22, 2013, at USAID/Pakistan offices in Islamabad and Karachi; at the Government of Sindh's Education and Literacy Department; and at the offices of iMMAP, Halcrow, and ASP. The audit covered the period September 21, 2011, to August 31, 2013.

As of August 31, 2013, USAID/Pakistan has obligated \$64,695,718 and disbursed \$2,358,416 under the program.

In planning and performing the audit, the audit team assessed controls used by the mission to manage the program and ensure adequate oversight of program activities. These controls included coordinating with Sindh Government officials and implementers, participating in key government meetings on program implementation, and relaying information between mission personnel in Islamabad and Karachi. Specifically, we examined and evaluated internal control documentation prepared by the mission, Sindh Government, and contractors, such as the following:

- Agreement between the Sindh Government and USAID
- Government of Pakistan's Planning Commission document known as the PC-1
- Performance management plan
- USAID portfolio reviews
- USAID contracts with Halcrow, National Engineering Services Pakistan, and International Relief and Development
- USAID cooperative agreements with iMMAP, Teachers' Resource Centre, and members of the ASP consortium

The audit team also assessed relevant internal controls used by the mission to manage activities. These controls included maintaining regular contact with Sindh Government officials and implementers, reviewing and approving key decisions, and assessing relevant progress.

Methodology

To answer the audit objective, the audit team interviewed officials at USAID/Pakistan in both Islamabad and Karachi. In addition, we conducted interviews in Karachi with officials from the Sindh Government's Education and Literacy Department, the Reform Support Unit (a Sindh Government unit), Halcrow, iMMAP, and ASP. We also held a phone interview in Islamabad with TRC. Through these interviews and documentation review, the audit team:

- Obtained an understanding of the program's goals.
- Analyzed the program's accomplishments.
- Reviewed the adequacy of the program's design and planning.
- Identified various issues within the program's implementation and their impact.

The audit team planned to sample reported results data; however, because no results had been achieved or submitted, no audit sampling was conducted.



USAID
FROM THE AMERICAN PEOPLE

PAKISTAN

MEMORANDUM

Date January X, 2014
To Sunil Kadam – Acting Director/OIG Pakistan
From Gregory Gottlieb - Mission Director USAID/Pakistan
Subject Audit of USAID/Pakistan's Sindh Basic Education Program (SBEP)
Reference Mission Response to Draft Performance Audit Report No G-391-14-XXX-P dated December xx, 2013

The USAID/Pakistan Mission would like to thank the OIG for providing the opportunity to review and provide comments to the draft performance audit report covering the Sindh Basic Education Program (SBEP).

We thank the OIG for acknowledging that the foundation has been laid by the SBEP team for school construction and that a solid working relationship has been developed between the team and the Government of Sindh in the first two years of the program. These are essential ingredients to a successful Government-to-Government (G2G) program. . USAID chose a G2G modality for school construction with the understanding it would be challenging. It has taken longer than desired to work through the challenges, but work and disbursements have now begun. The experience gained is also informing other G2G planning and decision-making.

While the delays of the program have presented a challenge, the SBEP program team used this time to execute a plan to achieve significant operational milestones:

- SBEP Program Steering Committee and SPPRA procurement committees were notified and have completed the task of approving all school construction sites where construction has now begun;
- International firm (iMMAP) was procured and successfully completed the construction baseline survey through the mapping of all government schools in target areas;
- Component #4- Community Mobilization Program has been initiated and the contractor (International Relief and Development) has begun implementation in tandem with the start of construction. Children in the first six schools have been safely moved to transitional schools and a nutrition study has begun.
- Component #7 was initiated with engineering design and construction supervision services being provided by an A/E firm
- Based on the mapping survey, the A/E firm was able to analyze the school site recommendations made by iMMAP and prepare viability studies for further school site identification and ultimately school designs.
- The Task Order for Milestone Monitoring firm was contracted. NESPAK has been engaged to provide milestone monitoring and verification services of construction related milestones.

We believe that the actions taken in response to the findings in this audit will improve the performance of the program and help to ensure that it continues to provide successful interventions in support of the Government of Sindh's efforts to address the challenges facing the Education sector.

Please find our management comments below addressing the recommendations included in the referenced audit report.

Recommendation No. 1 We recommend that USAID/Pakistan implement a plan to closely monitor construction and approval to avoid additional cost overruns.

Management Comments:

The Mission agrees with the recommendation. The Action Memo dated 26 August 2013 which approved the increase in the total construction cost has already defined a plan for putting in place certain measures in order to control cost overruns in subsequent construction batches (see Annex I). We confirm that the plan has been implemented and is producing results as evidenced from the tendering/bidding process of the schools to be constructed in the second batch:

- a) The Government of Sindh has appointed key staff at PMIU headed by a Project Director and reporting to the Secretary of Education. These positions, which are critical for spearheading the G2G procurement activities, are likely to continue in the future providing much needed stability in the operations of the PMIU.
- b) A dissemination conference for the construction contractors was held on 9 September 2013 in Karachi. It was very successful in that major construction firms of repute were in attendance to learn more about SBEP in general and the scope of construction component in particular. Subsequently forty new construction firms applied for pre-qualification.
- c) Through the second round of pre-qualification, the PMIU has increased the number of pre-qualified construction firms to fifteen. All of these firms were invited to bid for the construction of second batch resulting in highly competitive bids.
- d) The Government of Sindh has already been notified that the increase in reimbursable amount was a onetime extraordinary remedy which will not create a precedent for subsequent construction activities.

In view of above, the Mission requests OIG to acknowledge that a management decision has been reached and final action taken, hence requests closure of the recommendation upon issuance of the final audit report.

Recommendation No. 2 We recommend that USAID/Pakistan’s Office of Financial Management require new local implementers to provide their office with a canceled check showing account name and number before requesting payment from the USAID disbursement office.

Management Comments:

The Mission agrees with the recommendation. In order to avoid any confusion with respect to the banking details of the recipient which could potentially delay disbursements, the Office of Financial Management (OFM), going forward, has adopted the practice of requiring all new local implementing partners to provide the USAID payment office either a copy of a check or a canceled check showing the implementer's account name and number before requesting payment from the USAID payment office. This practice will supplement the existing practice of requiring all implementing partners to fill out the Phoenix Vendor Code form to provide the necessary banking details.

In view of above, the Mission requests OIG to acknowledge that a management decision has been reached and final action taken, hence requests closure of the recommendation upon issuance of the final audit report.

Recommendation No. 3 We recommend that USAID/Pakistan implement realistic targets for improving literacy and numeracy under the Sindh Basic Education Program.

Management Comments:

The Mission agrees with the intent of the recommendation. The SBEP team understands and appreciates OIG’s concerns regarding reaching a target of 750,000 children under the Sindh Reading Program. We also appreciate OIG making a reference to USAID’s Performance and Evaluation TIPS, “Baselines and Targets”. We would like to take this opportunity to reaffirm our commitment to compliance with ADS 203.3.9 “Establishing quality baselines and setting ambitious, yet achievable, targets.”

The SBEP team has carefully reviewed the data table inserted in the audit report on page 10, illustrating student enrollment of 474,658 for K-5 children in seven SBEP target districts in Northern Sindh and five towns of Karachi with reference to the iMMAP survey. We have revisited the detailed district profiles prepared by iMMAP in March 2013. The information and data in the district profiles is divided into various sections for ease of use and understanding. The most important part of the profiles is a structured analysis and comparison of data disaggregated by primary, middle and secondary education.

We have re-calculated primary education enrollments in each of the districts. Our current analysis is consistent with our previous analysis and setting of targets. Both the current and previous analyses indicate a net enrollment of 926,445 students in grades K-5, as against 474,658 students illustrated in the table in the OIG “un-audited” report.

In addition, we would also like to add the following factual information and observations:

- a) The student enrollment numbers illustrated in the audit report are more of a snapshot of ‘attendance’ on the day that iMMAP data collection occurred rather than the ‘enrollment’. SBEP team is aware and recognizes that ‘attendance’ generally tends to vary from day to day.

The robust approach of setting a target for a program like SRP is to base the calculation for baseline and targets on the most realistic and valid set of data on 'enrollment', available for school-age population in the area, and both gross and net enrollment rates.

- b) While conducting the survey, iMAP missed 1,033 schools in all seven districts. If these schools had been included the illustrated number of children would have been even greater than the current 926,445 children in grades K-5.
- c) The OIG conclusion is based on just one year data; whereas, the SBEP team has taken into account the projected annual enrollment every year for the next five years of the program. Based on trends in enrollment for last three years in Sindh, there will be more than 150,000 new children entering schools every year in the target districts.
- d) The current 'net enrollment rate' in seven SBEP target districts is in the range of 45-55%, which means there are another 45-55% school age children currently out of school. With the level effort and resources that SRP will put in operation, a vast number of these children have the potential to enter formal schools and/or non-formal learning opportunities to be provided by the program.

In the end, we appreciate the OIG concerns, but would also like to reiterate that SRP target of reaching 750,000 children, while being ambitious, is nevertheless achievable.

In addition, the SBEP team has prepared '***A Brief on Sindh Reading Program: Targets, Data Sources and Approach***' which presents in detail how the SRP target of reaching 750,000 was calculated and set, and how the target is achievable (See Annex- II).

In view of above, the Mission requests OIG to acknowledge that a management decision has been reached and final action taken, hence requests closure of the recommendation upon issuance of the final audit report.

Recommendation No. 4 We recommend that USAID/Pakistan de-obligate the excess funding for Teachers' Resource Centre under the Sindh Basic Education Program and reprogram funds for better use.

Management Comments:

The Mission agrees with the recommendation. The Mission has decided to keep \$500,000 in the award for close-out expenses and to de-obligate the remaining funds by January 31, 2014.

The proposed de-obligation amount of approximately \$9 million will be applied towards a new competitively bid contract.

Under this award, the new implementing partner is expected to achieve the following:

- a) Improved teacher competencies for effective early grade reading and mathematics instruction
- b) Improved early grade reading assessment practice

- c) Improved student access to supplementary reading and mathematics material
- d) Enhanced participation of parents and caregivers in support of early grade literacy and early grade numeracy for out of school children

Based on above, the Mission requests OIG's acknowledgement that a management decision has been reached on the recommendation.

Recommendation No. 5 We recommend that USAID/Pakistan determine whether to extend the Sindh Basic Education Program, and, if decides to do so, extend the Program as soon as possible to mitigate future delays

Management Comments:

The Mission agrees with the recommendation and has determined that an extension to the program will ensure that the Community Mobilization Program and the Sindh Reading Program are able to deliver their contract services to completion without compromising on quality.

The SBEP team is planning to enter into formal discussions with Government of Sindh to extend the Activity Agreement in early January. The timeline by which the extension is formalized will depend on the Government of Sindh's decision whether to extend the Activity Agreement in its own right or simultaneously process the extension of SBEP PC-1. In case of the former, which is the purview of Provincial Government, the extension is expected to formalize relatively soon. However, the later scenario will take longer since approval of SBEP PC-1 will have to be approved by the Executive Committee of the National Economic Council (ECNEC) at the federal level.

Based on the above, the Mission requests OIG's acknowledgement that a management decision has been reached and expects final action to be completed by June 30, 2014.

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