



USAID
DEL PUEBLO DE LOS ESTADOS
UNIDOS DE AMÉRICA

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/JAMAICA'S HURRICANE RECOVERY AND REHABILITATION PROGRAM

AUDIT REPORT NO. 1-532-05-008-P
April 12, 2005

SAN SALVADOR, EL SALVADOR



USAID

DEL PUEBLO DE LOS ESTADOS
UNIDOS DE AMÉRICA

Office of Inspector General

April 12, 2005

MEMORANDUM

FOR: USAID/Jamaica Director, Karen D. Turner

FROM: RIG/San Salvador, Steven H. Bernstein “/s/”

SUBJECT: Report on Audit of USAID/Jamaica’s Hurricane Recovery and Rehabilitation Program (Report No. 1-532-05-008-P)

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

This report contains five recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

I appreciate the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

The Regional Inspector General/San Salvador conducted this audit to determine the steps USAID/Jamaica implemented to manage its hurricane recovery and rehabilitation program and to determine if the management processes established for the hurricane recovery and rehabilitation program were operating as designed.

USAID/Jamaica designed 12 steps to control significant risks facing its hurricane recovery and rehabilitation program. These steps included reviewing and approving sub-awards, communicating and coordinating with partners (governmental and non-governmental), participating in the development of the eligibility criteria for beneficiaries, reviewing implementing partners' monthly and/or bi-weekly progress reports, ensuring audits would be conducted for sub-awardees, conducting regular site visits, acquiring external accounting services to review invoices paid on behalf of the Government of Grenada, conducting engineering assessments, reviewing monthly vouchers submitted by implementing partners, conducting environmental assessments, coordinating monitoring efforts with an oversight monitoring firm, and reviewing implementing partners' work plans and budgets (page 4).

Of the 12 management processes (control activities) established for the hurricane recovery and rehabilitation program, four were operating as designed, three were started but not far enough along to assess whether they were operating as designed, and five were not operating as designed (page 6).

We made five recommendations to address the issues discussed in this report. We recommended that USAID/Jamaica (1) acquire engineering services to oversee and monitor the quality control reviews conducted by the subcontractors; (2) incorporate evaluating supporting documentation in its reviews of vouchers submitted by implementing partners; (3) complete an environmental checklist for each project site; (4) establish clearly defined roles and responsibilities for Cognizant Technical Officers and members of the monitoring oversight firm; and (5) maintain a spreadsheet of target due dates for each activity to ensure that all activities are completed by the established due dates (pages 10 to 13).

USAID/Jamaica agreed with the findings and recommendations presented in this report (page 17).

BACKGROUND

During the 2004 hurricane season, several Caribbean islands - including Haiti, Grenada, Trinidad, Tobago, and Jamaica - experienced severe storms and widespread damage. Congress approved \$100 million of supplemental funds to assist Caribbean islands in their efforts to recover from the destruction. Of that amount, USAID/Jamaica received approximately \$63 million to provide relief to the citizens of Grenada and Jamaica and other islands distributed as follows:

Table 1: Supplemental Funding Received by USAID/Jamaica

	\$ million
Grenada	
Housing reconstruction and community revitalization	13
Agriculture and business revitalization	14
Counterpart financing	8
Schools	11
Subtotal – Grenada	46
Jamaica	
Community revitalization and infrastructure reconstruction	5
Agriculture and business revitalization	6
Schools	4
Subtotal – Jamaica	15
Bahamas	1
Trinidad and Tobago	1
Total	\$63

USAID/Jamaica's hurricane recovery and rehabilitation program was implemented in two phases. Phase I of the program was for 6-months immediate recovery, financed with Mission and USAID/Washington reprogrammed funds totaling \$10.7 million ending on March 31, 2005. Phase II of the program was for the expanded recovery financed with the supplemental appropriated funds noted above of approximately \$63 million from Congress for a 1-year period ending on December 31, 2005.

This audit focused only on Phase II activities. As of February 14, 2005, approximately \$60 million had been obligated under Phase II activities, and comprised of four components for Grenada and Jamaica:

- *Community Rehabilitation* – Activities included repairing houses and constructing new houses. The implementing partner was Planning and Development Collaborative International (PADCO) in both Grenada and Jamaica.
- *Business and Agriculture Rehabilitation Component* – Activities included job skills training, grant and technical assistance to small and medium enterprises, and support for rehabilitation of the agriculture sector. The implementing partners were CARANA Corporation in Grenada and Development Alternatives Inc./Fintrac and Jamaica Exporter's Association in Jamaica.

- *Schools Rehabilitation and Re-Supply* – Activities focused on school repairs and re-supply of materials and equipment. The implementing partner was PADCO in both Grenada and Jamaica.
- *Support of Government Operations* – Activities including paying certain government utility bill payments for the Government of Grenada. The implementing partner was Wingerts Consulting Inc.

USAID/Jamaica also contracted Wingerts Consulting Inc. to provide oversight services for the entire program.

AUDIT OBJECTIVES

As part of its fiscal year 2005 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

- What steps did USAID/Jamaica implement to manage its hurricane recovery and rehabilitation program?
- Were the management processes established for the hurricane recovery and rehabilitation program operating as designed?

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

AUDIT FINDINGS

What steps did USAID/Jamaica implement to manage its hurricane recovery and rehabilitation program?

USAID/Jamaica designed 12 steps (control activities) to manage risks related to program implementation. Steps implemented by USAID/Jamaica to manage the hurricane recovery and rehabilitation program included:

- Reviewing and approving sub-awards' supporting documents and specifications;
- Communicating and coordinating with partners (governmental and non-governmental);
- Participating in the development of the eligibility criteria for beneficiaries;
- Reviewing implementing partners' monthly and/or bi-weekly progress reports;
- Ensuring audits would be conducted for sub-awardees;
- Conducting regular site visits;
- Acquiring external accounting services to review invoices paid on behalf of the Government of Grenada;
- Conducting engineering assessments;
- Reviewing monthly vouchers submitted by implementing partners;
- Conducting environmental assessments;
- Coordinating monitoring efforts with an oversight monitoring firm; and
- Reviewing implementing partners' work plans and budgets.

According to the Government Accountability Office's (GAO) Standards for Internal Controls in the Federal Government, management should comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the Mission-wide and activity level. Once the risks have been identified, GAO states that they should be analyzed for their possible effect which includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk through appropriate actions.

Although USAID/Jamaica did not complete a formal risk assessment in line with GAO's description, USAID/Jamaica performed on-going, informal assessments to identify program risks and developed internal control activities to prevent the risks from becoming significant noncompliance issues. USAID/Jamaica together with RIG/San Salvador identified the following categories of risks for the hurricane recovery and rehabilitation program. Included in each category, are specific control activities designed to manage the risks. The risk analysis is included in Appendix III. A summary of risks and the control activities designed to manage those risks are included in Table 2.

Table 2: Summary of Risks and Control Activities

	Risk Category					
	Program	Procurement	Time	Cost	Quality	Environment
Reviewing and approving sub-awards' supporting documents and specifications		X				
Communicating and coordinating with partners (governmental and non-governmental)	X		X			
Participating in the development of the eligibility criteria for beneficiaries	X					
Reviewing implementing partners' monthly and/or bi-weekly progress reports			X			
Ensuring audits would be conducted for sub-awardees				X		
Conducting regular site visits			X			
Acquiring external accounting services to review invoices paid on behalf of the Government of Grenada				X		
Conducting engineering assessments					X	
Reviewing monthly vouchers submitted by implementing partners				X		
Conducting environmental assessments						X
Coordinating monitoring efforts with oversight monitoring firm			X			
Reviewing implementing partners' work plans and budgets			X			

Program Risks – Program risks included the possibilities of not properly identifying beneficiaries and the possibilities of host country government involvement with the program. To manage the risk related to identifying beneficiaries, the Cognizant Technical Officers (CTOs) and the Contracting Officer participated in the development of the eligibility criteria, approved the final eligibility criteria, or approved individual beneficiaries depending on the circumstances. To manage the political risks of host country interference in Jamaica and Grenada, the CTOs, the Mission Director, and representatives from the monitoring firm conducted regular meetings with the host governments and ministries to resolve issues as they arise.

Procurement Risks – Procurement risks included the possibilities that contractors do not comply with competitive awarding procedures required by the Federal Acquisition Regulation in awarding their sub-awards, and that award documents do not contain all the required provisions. To manage this risk, the CTOs and the Contracting Officer reviewed and

approved sub-award supporting documents and specifications to ensure that all contract awarding procedures were followed and that all required provisions were included.

Time Risk – Time risk included the possibility of not being able to complete the activities within the established time frame. Some factors that may contribute to this risk were weather delays, inability of vendors to deliver goods on time, unavailability of materials, and limited workforce. To manage this risk, the CTOs communicated with implementing partners via telephone and email weekly or sometimes daily, reviewed work plans, received monthly progress reports, and conducted regular site visits. In addition, services from a monitoring firm, Wingerts Consulting Inc., were acquired to assist in managing the program.

Cost Risks – Cost risks included possibilities of unauthorized, unapproved, invalid, and duplicate payments. For the Mission, this risk was increased because two of its contracts were awarded to the same implementing partner. The implementing partner was sharing office space and staff under two separate contracts. To manage this risk, the CTOs reviewed vouchers submitted by the implementing partners. Also, the Mission prepared an audit strategy and audit universe to ensure that audits of subcontractors would be conducted. Furthermore, one of the components of the hurricane reconstruction program was to provide financial assistance directly to the Government of Grenada. The financial assistance would include paying incurred costs of the Government of Grenada for maintaining government operations. Accounting services were in process of being acquired to review those vouchers.

Quality risks – Quality risks included the possibilities of poor workmanship, lack of qualified/experienced contractors, use of substandard materials, and application of construction methods that were not hurricane resistant. To manage this risk, the Mission hired Wingerts Consulting Inc. to perform engineering services. The engineer was responsible for providing engineering services.

Environmental risks – Environmental risks included the possibilities of non-compliance with environmental standards and regulations established by USAID and the Government of Grenada and Jamaica and the possibilities of environmental damages caused by the program activities. To manage this risk, the Mission Environmental Officer prepared an Initial Environmental Examination for the entire program.

Were the management processes established for the hurricane recovery and rehabilitation program operating as designed?

Of the 12 management processes (control activities) established for the hurricane recovery and rehabilitation program, four were operating as designed, three were started but not far enough along to assess whether they were operating as designed, and five were not operating as designed.

Control activities that were operating as designed:

- Reviewing and approving sub-awards' supporting documents and specifications;
- Communicating and coordinating with partners (governmental and non-governmental);
- Participating in the development of the eligibility criteria for beneficiaries; and
- Reviewing implementing partners' monthly and/or bi-weekly progress reports.

Control activities that were started but not far enough along to assess whether operating as designed:

- Ensuring audits would be conducted for sub-awardees;
- Acquiring external accounting services to review invoices paid on behalf of the Government of Grenada; and
- Conducting regular site visits.

Control activities that were not operating as designed:

- Conducting engineering assessments;
- Reviewing monthly vouchers submitted by implementing partners;
- Conducting environmental assessments;
- Coordinating monitoring efforts with oversight monitoring firm; and
- Reviewing implementing partners' work plans and budgets.

Reviewing and approving sub-awards' supporting documents and specifications - The Cognizant Technical Officers (CTOs) and the Contracting Officer reviewed sub-awards to ensure compliance with full and open competition regulations established by the Federal Acquisition Regulation, and ensured that all awards contained standard provisions and certifications. Because the program was still in its initial stages, only five sub-awards had been signed and 12 were still in process. Two of USAID/Jamaica's implementing partners had not yet entered into any sub-awards.

For the five sub-awards that were signed, contract files contained the following documentation:

- A justification for less than full and open competition;
- Approval from the CTO and the Contracting Officer, depending on award amounts;
- Signed certifications by the implementing partner; and
- Standard provisions and audit rights.

For the 12 sub-awards in process, contract files properly contained all or some (depending on the status toward completion of each award) of the following documentation:

- Bill of Quantity;
- Request for Application;
- Public Opening of Bid;
- Negotiation Memo;
- Wingerts Consulting Approval; and
- USAID Approval.

Communicating and coordinating with partners (governmental and non-governmental) - The CTOs were in weekly or daily contact with the implementing partners by phone and emails. The CTOs made visits to the implementing partners' offices every two weeks and sometimes as often as two to three times a week, depending on the need. The CTOs were also in regular contact and held various meetings with the Governments and Ministries of Jamaica and Grenada to resolve issues of land tenure and other program issues. A review of email communications and notes taken by the CTOs at meetings indicated that regular

communications took place. The level of communication was also confirmed by the implementing partners.

Participating in the development of the eligibility criteria for beneficiaries - The CTOs and the Contracting Officer participated in the development of the eligibility criteria, approved the final eligibility criteria, or approved individual beneficiaries, depending on the activity. For example, in Jamaica and Grenada, the schools and housing construction/repair beneficiaries were identified by the Office of National Reconstruction and governmental agencies in the respective countries; therefore, the CTOs and the Contracting Officer did not approve the eligibility criteria. The CTOs and the implementing partners were working together to prioritize the activities and resolve issues of land tenure for the beneficiaries. For agricultural activities, which provided in-kind grants to beneficiaries, the CTOs approved the eligibility criteria prior to awarding the grants. The criteria was established by Development Alternative Inc./Fintrac and approved by the CTO and the Contracting Officer. A review of the grant files indicated that the eligibility criteria for beneficiaries and the individual grants to beneficiaries were properly signed by the CTO and/or the Contracting Officer.

Reviewing implementing partners' monthly and/or bi-weekly progress reports - CTOs received and reviewed monthly and/or bi-weekly progress reports from the implementing partners. The format of the bi-weekly reports was established by USAID/Jamaica's CTOs and used by the CTOs in Jamaica and Grenada and the implementing partners to track activities. The bi-weekly reports contained detailed descriptions of each activity, the status of the activity, and results achieved to date for each activity. Because the bi-weekly reports were very detailed, the monthly reports were for the most part, summaries of the bi-weekly reports prepared in a different format. A review of the monthly and bi-weekly reports submitted by the implementing partners indicated that each activity was properly tracked with a description, status, and results. CTOs' comments on the activities were noted on the bi-weekly reports, which indicated that the CTOs reviewed the reports.

Ensuring audits would be conducted for sub-awardees - USAID/Jamaica's Financial Management team prepared an audit strategy and an audit universe for all sub-awards requiring audits in fiscal year 2005 under the hurricane recovery and rehabilitation program. A review of the audit strategy and audit universe indicated that the Financial Management team was focused on ensuring that audits would be conducted for sub-awards. However, until the audit firms have been hired and audit reports have been issued, a determination of whether the management process for ensuring audits would be conducted was operating as designed could not be made.

Acquiring external accounting services to review invoices paid on behalf of the Government of Grenada - USAID/Jamaica was in the process of acquiring accounting services from PricewaterhouseCoopers to conduct financial reviews of vouchers paid on behalf of the Government of Grenada under the financial assistance program. However, until the contract has been approved and the vouchers have been submitted from the Government of Grenada, a determination of whether the management process for acquiring accounting services to review the invoices could not be made.

Conducting regular site visits - CTOs planned to conduct regular site visits to the project sites. However, because the program was still in its initial phase, construction and repair had not yet begun and site visits had not been conducted. For the agriculture activities, implementation had begun, and three site visits were conducted by the CTOs. However, until work has commenced for the construction and repair activities, a determination of whether the

management process for conducting regular site visits was operating as designed could not be made.

Architectural and Engineering Reviews Were Not Conducted

Summary: USAID/Jamaica hired a monitoring firm; however, the firm hired did not have the skills required to mitigate the quality risks. The Government Accountability Office's Standards for Internal Controls in the Federal Government described internal control activities as policies, procedures, techniques, and mechanisms that enforce management's directives and ensure that actions are taken to address risks. USAID/Jamaica relied on the monitoring firm's engineer to perform engineering reviews but had not realized the engineer did not have the skills required to manage the quality risk. Also, the Mission relied on the quality control procedures that would be implemented over its construction activities by its prime contractors. Without conducting an architectural and engineering review or monitoring the review process to ensure that construction activities are being carried out properly, USAID could be faced with construction projects that are of poor workmanship, poor quality, and not resistant to future hurricanes. Furthermore, USAID could be faced with political repercussions from the Governments of Grenada and Jamaica if the construction projects fail.

USAID/Jamaica acquired services from Wingerts Consulting Inc., primarily for the purpose of providing engineering services as well as providing monitoring and oversight for the entire program. Wingerts Consulting intended to hire engineers to oversee activities in Grenada and Jamaica. At the time of the audit, only the engineer in Grenada had been hired. The responsibilities of the Wingerts Consulting engineer in Grenada included conducting preliminary site visits with implementing partners to the project areas to assess damage, reviewing bills of quantities prepared by the implementing partner's quantity surveyor, attending tender bid openings, reviewing and approving recommendations of subcontractors made by quantity surveyor, and conducting regular site visits to the project areas to identify obvious problems. The Wingerts Consulting team in Jamaica had not yet hired a construction engineer. According to the Wingerts Consulting Chief of Party, the engineer hired would have the same responsibilities and skills as the engineer in Grenada, The Wingerts Consulting Chief of Party also stated that even though hiring engineers was planned, neither engineer in Jamaica and Grenada would have the skills required to mitigate the quality risks such as poor construction workmanship, poor quality of materials, and construction methods that would not be resistant to future hurricanes.

The Wingerts Consulting engineer in Grenada had the overall responsibility for the reconstruction activities, but was not able to provide, and did not intend on providing, the architectural and engineering services required to manage the quality risks. According to the engineer, the Wingerts Consulting engineering services provided were not considered architectural and engineering services. For example, the Wingerts Consulting engineer had not reviewed any architectural designs (drawings and sketches) of the construction projects, had not been involved with the subcontractor selection process, had not been involved with the prequalification of firms, and had not performed inspections of the project sites. According to the Wingerts Consulting engineer in Grenada, the services provided were at a very high level (e.g. obvious construction problems), not at the level that could determine if the quality of the workmanship or the quality of the materials met USAID's standards.

Based on discussions with construction experts, CTOs, contractors and engineers at USAID/San Salvador and USAID/Jamaica, to properly manage the quality risk, a qualified engineer's responsibility should include the following:

- Reviewing architectural and engineering designs to ensure that the designs meet all the necessary standards and building codes;
- Assessing damage of construction projects;
- Reviewing qualifications of subcontractors to ensure that the subcontractors have the qualifications and experience required to carry out the activities;
- Participating in the selection process of subcontractors;
- Reviewing bills of quantities;
- Conducting on-site inspections for quality of workmanship, quality of materials, and hurricane construction standards;
- Preparing and forwarding inspection reports to CTOs; and
- Ensuring inspection findings are resolved by contractor.

The Government Accountability Office's Standards for Internal Controls in the Federal Government describes internal control activities as policies, procedures, techniques, and mechanisms that enforce management's directives and ensure that actions are taken to address risks. The Automated Directives System (ADS) 201.3.12.12 states "a key part of planning an activity is determining what management capabilities are needed. The particular skills and level of effort that are needed to manage an activity will vary." Furthermore, ADS 596.3.1 states that USAID managers and staff must develop and implement appropriate, cost-effective management controls for results-oriented management.

USAID/Jamaica relied on the monitoring firm's engineer to perform engineering reviews, but had not realized the engineer did not have the skills required to manage the quality risk. Also, the Mission relied on the quality control procedures that would be implemented over its construction activities by its prime contractors. However, the quality control procedures would be implemented by a subcontractor hired by the prime contractor. Quality control procedures should be conducted by an independent source or should be monitored by an independent source. Without conducting an architectural and engineering review or monitoring the review process to ensure that construction activities are being carried out properly, USAID could be faced with construction projects that are of poor workmanship, poor quality, and not resistant to future hurricanes. Furthermore, USAID could be faced with political repercussions from the Governments of Grenada and Jamaica if the construction projects fail.

Recommendation No. 1: We recommend that USAID/Jamaica (1) verify that quality control procedures are designed by its prime contractors to mitigate the quality risks; and (2) acquire engineering services to oversee and monitor the quality control reviews conducted by the subcontractors to mitigate the quality risks.

Vouchers Were Reviewed Without Supporting Documentation

CTOs reviewed and approved vouchers submitted by implementing partners, but did not obtain supporting documentation (e.g., invoices, purchase orders, and receiving reports) for the vouchers. Although the CTOs were complying with standards established by ADS 636.3.3.3 for reviewing vouchers, the need to review supporting documentation for the hurricane recovery and rehabilitation program was evident. ADS 636.3.3.3 stated that

contractors and recipients were subject to annual audits, which provided reasonable assurance that only eligible, supported costs were being claimed for reimbursement; therefore, requests for support documentation that backed up a contractor's invoice should not be made on a routine, recurring basis. However, because the audits would not be conducted until after the program has ended, a more timely review of the supporting documentation was necessary. Furthermore, the program was subject to vulnerabilities because it was a large program expected to be implemented in a short time frame which lended itself to a higher risk of fraud, waste and abuse. The reconstruction element of the program entailed a higher inherent risk. Also, while some implementing partners had experience with the program, they did not have the experience in Grenada and Jamaica, and the use of subcontractors contributed to inherent risks. Lastly, USAID/Jamaica was at an even greater risk of improper charges since two of its contracts were being implemented by the same implementing partner. The two contracts were sharing staff as well as office space.

ADS 636.3.3.3 further stated that if at any time a CTO has reason to believe that a contractor's or recipient's financial reports and/or vouchers do not accurately reflect its expenditures, he or she should discuss the issue with the Contracts or Agreement Officer, who may then decide to request a financial review or audit of the contract or agreement in question. ADS 596.3.1 stated that USAID managers and staff must develop and implement appropriate, cost-effective management controls for results-oriented management, which reasonably ensure that assets are safeguarded against waste, loss, unauthorized use, or misappropriation and expenditures are properly recorded and accounted for. To properly and timely manage the risk of unauthorized, invalid, and duplicate payments, financial reviews of implementing partners' vouchers should be conducted on a sample basis. Given the circumstances, an appropriate level of voucher reviews should include:

- Reviewing invoices, shipping and receiving documents to ensure that purchases were authorized, received, valid, and not duplicated on other contracts;
- Reviewing travel and transportation invoices for validity and reasonableness;
- Reviewing inspection reports to ensure that all issues were resolved prior to making payments;
- Reviewing time cards to ensure personnel charged to contract were valid and were not also charged to other contracts;
- Reviewing vouchers to ensure that only subcontractors approved by USAID were requesting payment; and
- Conducting periodic inventory counts to support large purchases.

USAID/Jamaica had always reviewed vouchers without supporting documentation and had not realized the need to conduct a more thorough review. Furthermore, the Mission relied on audits that would be conducted on the sub-recipients. Without reviewing supporting documentation for the vouchers submitted by the prime implementing partners, USAID/Jamaica would not be timely assured that all payments made were authorized, properly supported, and valid.

Recommendation No. 2: We recommend that USAID/Jamaica incorporate evaluating supporting documentation in its reviews of vouchers (on a sample basis) to timely verify that all payments are authorized, properly supported, and valid.

Environmental Reviews Were Not Conducted For Each Project

USAID/Jamaica conducted an Initial Environmental Examination for the entire hurricane recovery and rehabilitation program in November 2004. The Mission had not conducted and did not intend to conduct an environmental assessment or review of each project and did not have supporting documentation for exemption of an assessment or review for five of the six contracts.

The Initial Environmental Examination required that an environmental checklist be prepared for each activity before the activity begins. According to 22 Code of Federal Regulations (CFR) 216, the purpose of an environmental assessment or review is to provide agency and host country decision makers with a full discussion of significant environmental effects of a proposed action. It included alternatives which would avoid or minimize adverse effects or enhance the quality of the environment so that the expected benefits of development objectives can be weighed against any adverse impacts upon the human environment or any irreversible or irretrievable commitment of resources.

USAID/Jamaica had not considered an environmental assessment or review for each project because the CTOs had not realized that it was required. To properly manage the environmental risks associated with the program, the Mission should complete an environmental checklist for each project site that would be reviewed by the Mission Environmental Officer. If no review or adequate environmental review is conducted prior to construction, mitigating actions could not be incorporated into the project design where potential negative environmental impacts were identified. Also, USAID could be in a position of noncompliance with environmental regulations and standards established by USAID and host country governments.

Recommendation No. 3: We recommend that USAID/Jamaica complete an environmental checklist for each project site; which is then reviewed by the Mission Environmental Officer.

Roles and Responsibilities Were Not Clearly Defined

With the added level of monitoring from Wingerts Consulting, the CTOs and the monitoring firm had to work together to coordinate their monitoring efforts. However, the roles of each party involved, the CTOs and each member representing the monitoring firm, were not clearly defined. This made it difficult to carry out monitoring activities. For example, it was unclear as to who would monitor and track all implementing activities, how efforts would be coordinated with the implementing partners, who would conduct site visits (the monitoring firm and/or the CTOs), when site visits would be conducted, how results of site visits would be communicated, and how the role of public relations would be divided. The CTOs were uncertain of the roles of the monitoring firm and vice versa. Also, the implementing partners were uncertain of the roles and had received requests for the same items from both the CTOs and the monitoring firm. Although the role of the CTOs is defined in ADS 202.3.6.1 and the role of the monitoring firm was defined in the Statement of Work, the roles and responsibilities or specific assignments were not defined by the Mission for the CTOs and the monitoring firm together as one monitoring unit to oversee the hurricane recovery and reconstruction program.

The Government Accountability Office's Standards for Internal Controls in the Federal Government described internal control activities as policies, procedures, techniques, and mechanisms that enforce management's directives and ensure that actions are taken to address risks. Also, ADS 201.3.12.12 states "a key part of planning an activity is determining what management capabilities are needed. The particular skills and level of effort that are needed to manage an activity will vary."

Because the program was awarded for a very short period (one year), the Mission focused on getting the program implemented without considering the complications that it would face with an added level of monitoring. Without clearly defined roles and responsibilities, the Mission would not be efficient in achieving its objectives for the program. Duplicate reporting, additional work, and confusion could be avoided if all roles and responsibilities were clearly defined.

Recommendation No. 4: We recommend that USAID/Jamaica establish clearly defined roles and responsibilities for its Cognizant Technical Officers and for the members of the monitoring oversight firm as it relates to the hurricane recovery and rehabilitation program.

Monitoring Reports Were Not Received Timely

The control activity designed to ensure that monitoring reports were received timely was that CTOs reviewed contract specifications and reporting requirements as stipulated in the award agreements. However, the control activity was not operating as designed because finalized work plans and budgets had not been submitted by Planning and Development Collaborative International (PADCO). Work plans and budgets were considered monitoring reports according to CTOs. PADCO had not submitted a final work plan or budget for community rehabilitation and the school rehabilitation and re-supply activities in both Grenada and Jamaica. According to the contract reporting requirements, the final work plan and budget were due on December 17, 2004. As of March 1, 2005, the final work plan and final budget had not been submitted by the implementing partner.

According to the CTOs, the implementing partners had a late start but were working with a draft work plan and draft budget that was expected to be finalized within days. Also, with factors changing constantly, it was difficult for the implementing partners to finalize the documents. To properly manage the risk of not being able to complete all activities in the time frame established, all activity due dates should be carefully tracked, monitored, and enforced to ensure promptness. Without properly tracking, monitoring, and enforcing that all activities be achieved by the established due dates, USAID may be unable to achieve its goals in the established time frame.

Recommendation No. 5: We recommend that the Cognizant Technical Officers monitor the program by maintaining a spreadsheet of target due dates for each activity and verify that all activities are completed by the established due date.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Jamaica agreed with all the findings and recommendations presented in this report. Accordingly, management decisions were made for the recommendations. USAID/Jamaica comments are included in their entirety in Appendix II.

Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. The audit was conducted at the offices of USAID/Jamaica, USAID/Barbados, and contractors' offices in Grenada from February 14, 2005 through March 1, 2005. The USAID/Barbados office is a satellite office for the USAID/Jamaica office. Cognizant Technical Officers for activities in Grenada reside in Barbados. The purpose of the audit was to determine the steps USAID/Jamaica implemented to manage its hurricane recovery and rehabilitation program and to determine if the management processes established for the hurricane recovery and rehabilitation program were operating as designed.

During our audit fieldwork, we obtained an understanding of and assessed the Mission's controls related to the management of hurricane recovery and rehabilitation activities being implemented by CARANA, Development Alternatives Inc./Fintrac and Jamaica Exporters Association, and Planning and Development Collaborative International (PADCO) as listed under objective one. We reviewed the Mission's self-assessment report prepared in compliance with the Federal Managers Financial Integrity Act for the fiscal year 2004 for those management controls relevant to the audit objective.

The audit focused only on Phase II of the hurricane recovery and rehabilitation program which was for the expanded recovery financed with the supplemental appropriated funds of approximately \$63 million from Congress for a 1-year period ending on December 31, 2005. The audit only focused on the hurricane recovery and rehabilitation activities in Jamaica and Grenada. This audit did not include any activities under Phase I of the hurricane recovery and rehabilitation program. As of February 14, 2005, approximately \$60 million had been obligated.

Methodology

To answer audit objective one, we performed the following:

- Gained an understanding of the Mission's hurricane recovery and reconstruction program and independently assessed the risks facing the project team in meeting the Mission's objectives;
- Together, RIG/San Salvador and the Mission determined and agreed on the risks facing the program; and
- Identified steps, processes, or control activities implemented or planned by the Mission to mitigate the identified risks.

In addition, we interviewed the USAID/Jamaica and USAID/Barbados Cognizant Technical Officers, Program Officer, Contracting Officer, Financial Analyst, and Controller. We made visits to the implementing partners' offices (CARANA, PADCO, Development Alternatives Inc./Fintrac, and Wingerts Consulting) in both Jamaica and Grenada. The audit objective was descriptive in nature.

To answer objective two, we interviewed USAID/Jamaica and USAID/Barbados Cognizant Technical Officers, Program Officer, Contracting Officer, Financial Analyst, Controller, and implementing partners. In addition, we reviewed all documentation that was available to us at the time of the audit to determine if the controls were operating as designed. The documents we reviewed included:

- Sub-award supporting documentation and specifications;
- Monthly vouchers submitted by implementing partners;
- Mission audit strategy and universe for sub-awards;
- Site visit reports;
- Initial Environmental Examination conducted by the Mission Environmental Officer;
- Engineer reports including site visits conducted, bills of quantities reviewed, attendance at bid openings;
- Eligibility criteria established for beneficiaries;
- Implementing partners' work plans and budgets; and
- Implementing partners' monthly and/or bi-weekly progress reports.

MANAGEMENT COMMENTS

Memorandum

To: Steven Bernstein, Regional Inspector General, San Salvador

From: Peter Klosky, Controller, USAID/J-CAR

CC: Karen D. Turner, Mission Director, USAID/J-CAR

Date: April 4, 2005

Subject: **Draft Report on Audit of USAID/Jamaica's Hurricane Recovery and Rehabilitation Program**

Reference: RIG Audit Report Number 1-532-05-xxx-P

We refer to your memorandum and draft report on the subject audit and now enclose our management comments to the five recommendations contained in your report.

Recommendation No. 1: We recommend that USAID/Jamaica (1) ensure that quality control procedures are designed by its prime contractors to mitigate the quality risks; and (2) acquire engineering services to oversee and monitor the quality control reviews conducted by the subcontractors to mitigate the quality risks.

USAID Jamaica's Management Comments:

Mission agrees with the recommendation and has already put in place a quality control procedure for each construction site. Through the USAID Management Oversight Contract with Wingerts Consulting, engineers have been hired to provide engineering oversight of the contractors responsible for reconstruction to ensure contractor compliance. The Wingerts Consulting engineer oversight role has been more clearly defined, put into writing and distributed to all contractors and an engineering check list and certification process is being put in place.

Recommendation No. 2:

We recommend that USAID/Jamaica incorporate evaluating supporting documentation in its reviews of vouchers (on a sample basis) to timely ensure that all payments are authorized, properly supported, and valid.

USAID Jamaica's Management Comments:

Mission agrees with the recommendation. The Office of Financial Management (OFM) has put in place a verification check process for the supporting documentation of the prime contractor's invoices and this process will continue on a bi-monthly basis throughout the program. These reviews will enable timely assurance that all payments made are authorized, properly supported, and valid. Wherever the prime contractor's vouchers do not accurately reflect its expenditures, we will discuss the issue with the Regional Contracting Officer, and consider the need for a financial review or audit of the contract or agreement in question.

Recommendation No. 3: We recommend that USAID/Jamaica complete an environmental checklist for each project site; which is then to be reviewed by the Mission Environmental Officer.

USAID Jamaica's Management Comments:

Mission agrees with the recommendation and is currently putting in place an environmental check process for each activity. Through the USAID Management Oversight Contract with Wingerts Consulting, the engineers hired to provide engineering oversight of the contractors will also be responsible for conducting the environmental check. The Wingerts Consulting engineer oversight role has been more clearly defined to add this additional task and an environmental check list and certification process is being designed by the Mission Environmental Officer.

Recommendation No. 4: We recommend that USAID/Jamaica establish clearly defined roles and responsibilities for its Cognizant Technical Officers and for the members of the monitoring oversight firm as it relates to the hurricane recovery and rehabilitation program.

USAID Jamaica's Management Comments:

Mission agrees with the recommendation. Roles and responsibilities for the USAID management Oversight Contractor have been clearly defined for Jamaica, Grenada and the other islands (Bahamas and Tobago). The roles and responsibilities are in writing and have been shared with each of the USAID contractors working in each of the countries.

Recommendation No. 5: We recommend that the Cognizant Technical Officers monitor the program by maintaining a spreadsheet of target due dates for each activity and ensure that all activities are completed by the established due date.

USAID Jamaica's Management Comments:

Mission agrees with the recommendation and has already put in place several routine management tasks to support the CTO in their role in monitoring contractor performance. A CTO Monthly Monitoring check list and report are to be filled out each month by each CTO, which covers monthly monitoring of financial, administrative, procurement, and technical management of the contractors. In addition, monthly meetings are held in Jamaica and Grenada between CTO and contractors to verbally discuss performance to date and address issues. In addition, the contractor is responsible for sending in a monthly contractor report on performance, and adjustments have been made to the contractor report to include specific details on due dates for completion of activities.

Risk Analysis

Risk Analysis of USAID/Jamaica's Hurricane Recovery and Rehabilitation Activities

Risk Type	Risk	Significance of Risk	Likelihood of Occurrence	Control Activities	Actions to Take
Program	Screening criteria for eligible recipients not defined	High	Medium	In most cases, the beneficiaries will be identified by the Organization of National Reconstruction in Jamaica and the Government of Grenada. For the agricultural program, the eligibility criteria established for beneficiaries is approved by the Cognizant Technical Officers (CTOs) and/or the Contracting Officer.	USAID/Jamaica will work closely with the implementing partners to prioritize the projects based on the list of eligible beneficiaries prepared by the Organization of National Reconstruction and the Government of Grenada. The implementing partners will verify that the eligible individuals included on the provided list meet the established criteria set by the Government of Grenada and the Organization of National Reconstruction.
	Benefits provided to ineligible recipients	Medium	Low	In most cases, the beneficiaries will be identified by the Organization of National Reconstruction in Jamaica and the Government of Grenada. For the agricultural program, the eligibility criteria established for beneficiaries is approved by the CTO and/or the Contracting Officer.	USAID/Jamaica will work closely with the implementing partners to prioritize the projects based on the list of eligible beneficiaries prepared by the Organization of National Reconstruction and the Government of Grenada. The implementing partners will verify that the eligible individuals included on the provided list meet the established criteria set by the Government of Grenada and the Organization of National Reconstruction.
	Benefits rejected for eligible recipients	High	High	In most cases, the beneficiaries will be identified by the Organization of National Reconstruction in Jamaica and the Government of Grenada. For the agricultural program, the eligibility criteria established for beneficiaries is approved by the CTO and/or the Contracting Officer.	USAID/Jamaica will work closely with the implementing partners to prioritize the projects based on the list of eligible beneficiaries prepared by the Organization of National Reconstruction and the Government of Grenada. The implementing partners will verify that the eligible individuals included on the provided list meet the established criteria set by the Government of Grenada and the Organization of National Reconstruction.

Risk Type	Risk	Significance of Risk	Likelihood of Occurrence	Control Activities	Actions to Take
	Political issues with the host country governments	High	High	The Mission Director, CTOs, and Wingerts Consulting communicate regularly with the Governments and Ministries of Jamaica and Grenada.	USAID/Jamaica will continue to communicate regularly with the Governments and Ministries of Jamaica and Grenada to ensure that issues are resolved timely.
Procurement	Contractor did not comply with competitive award process resulting in higher costs to the U.S. Government	High	Medium	The CTOs and the Contracting Officer review and approve sub-award supporting documentation and specifications to ensure that sub-awards comply with competitive awarding processes and that all standard provisions are included in the documents.	The CTOs and the Contracting Officer will continue to review sub-awards to ensure compliance with competitive awarding processes and to ensure that proper standard provisions are included.
	Award documents do not contain all the required provisions and signed certifications	Medium	Medium	The CTOs and the Contracting Officer review and approve sub-award supporting documentation and specifications to ensure that sub-awards comply with competitive awarding processes and that all standard provisions are included in the documents.	The CTOs and the Contracting Officer will continue to review sub-awards to ensure compliance with competitive awarding processes and to ensure that proper standard provisions are included.
Time	Delays in determination of land tenure status	High	High	Delays in prioritizing projects (selecting beneficiaries from the pre-established list) have occurred due to land tenure issues. The CTOs and the implementing partners are working closely and regularly with the Governments and Ministries of Jamaica and Grenada to resolve land tenure issues.	The CTOs and implementing partners will continue to respond to government inquiries to resolve problems as quickly as possible.
	Work not completed on time	High	High	CTOs are in regular communication with the implementing partners, plan to conduct regular site visits, receive progress reports, work plans, and budgets.	CTOs will track each activity and ensure that it is completed in the time frame established.
	Materials are unavailable	High	Low	The implementing partners have already made contact with local suppliers. They will ensure that orders are made in advance to ensure availability.	CTOs will ensure that implementing partners are making orders in advance to mitigate any risks of unavailability of materials and supplies.
	Delays due to poor weather	High	Low-Medium	Weather cannot be controlled. However, the implementing partners are well aware of the rainy seasons and will plan their work accordingly (e.g., ensure that main structures are installed before the rainy season).	USAID/Jamaica and the implementing partners will plan ahead to avoid delays caused by poor weather conditions.
	Unreasonable or unrealistic estimates were used	Medium	Medium	The CTOs work closely with the implementing partners and ensure that the work plan and budget are current and complete and reflect required changes.	The CTOs will ensure that estimates for completion are reasonable and achievable in the time established.

Risk Type	Risk	Significance of Risk	Likelihood of Occurrence	Control Activities	Actions to Take
	Contractor not held to planned activities	Medium	Medium	The CTOs communicate regularly with the implementing partners, review work plans, budgets, progress reports, and plan to conduct regular site visits.	The CTOs will establish target due dates for each activity and ensure that the implementing partner achieves activities by the due dates established.
	Human resources not available when required	Medium	Medium	The implementing partners will work closely with the subcontractors to ensure that sufficient human resources are available to perform the work.	The implementing partners should be ready to replace subcontractors if they are unable to meet the human resources requirements.
Cost	Materials lost to shrinkage from warehousing/storage	Medium	Low	The subcontractors are responsible for maintaining adequate inventory controls. Most contracts are on a fixed priced basis.	Implementing partners should ensure subcontractor inventory controls are adequate.
	Contractor has excessive levels of inventory in order to support purchasing activity.	Medium	Medium	The subcontractors are responsible for maintaining adequate inventory controls. Most contracts are on a fixed priced basis.	As part of the financial review of vouchers, an inventory count should be conducted by USAID/Jamaica periodically to support large purchases.
	Theft of materials and supplies at staging area and/or job site	Medium	Low	Subcontractors are responsible for maintaining adequate security measures for project sites. Most sites are fenced in and locked.	Implementing partners will ensure that subcontractors secure job sites and implement other security controls.
	Payment made to organizations not approved by USAID.	High	Medium	The CTOs review and approve vouchers submitted by the implementing partners. USAID/Jamaica prepared an audit strategy and audit universe to ensure that required audits will be conducted for all required sub-awardees	USAID/Jamaica's review of vouchers submitted by implementing partners should incorporate evaluating supporting documentation such as invoices, receiving reports, inspections reports, timecards, etc. Also, the CTOs should compare sub contractors to USAID's approved list of contractors.
	Labor cost mischarging (e.g., excessive or unusual charges by home office employees, timecards prepared by supervisor not employee, charging same employees to two or more jobs concurrently, and charging labor hours incurred by fictitious employee).	High	High	The CTOs review and approve vouchers submitted by the implementing partners. USAID/Jamaica prepared an audit strategy and audit universe to ensure that required audits will be conducted for all required sub-awardees	USAID/Jamaica's review of vouchers submitted by implementing partners should incorporate evaluating supporting documentation such as invoices, receiving reports, inspections reports, timecards, etc.

Risk Type	Risk	Significance of Risk	Likelihood of Occurrence	Control Activities	Actions to Take
	Inflated or unusual freight charges	Medium	Medium	The CTOs review and approve vouchers submitted by the implementing partners. USAID/Jamaica prepared an audit strategy and audit universe to ensure that required audits will be conducted for all required sub-awardees	USAID/Jamaica's review of vouchers submitted by implementing partners should incorporate evaluating supporting documentation such as invoices, receiving reports, inspections reports, timecards, etc.
	USAID funds disbursed for work or goods that have not been completed /not authorized /not substantiated /already paid for/ or not yet received.	High	High	The CTOs review and approve vouchers submitted by the implementing partners. USAID/Jamaica prepared an audit strategy and audit universe to ensure that required audits will be conducted for all required sub-awardees. Also, for the financial assistance provided to the Government of Grenada, USAID/Jamaica will acquire external accounting services to review invoices submitted by the Government of Grenada.	USAID/Jamaica's review of vouchers submitted by implementing partners should incorporate evaluating supporting documentation such as invoices, receiving reports, inspections reports, timecards, etc.
Quality	Repairs do not take into account structural damages	Medium	Medium	USAID/Jamaica hired a monitoring firm (Wingerts Consulting) to provide engineering services.	USAID/Jamaica will acquire architectural and engineering services to conduct thorough assessments of damages prior to construction.
	Quality standards not met /Construction standards unsuitable for conditions /Substandard materials used	High	High	USAID/Jamaica hired a monitoring firm (Wingerts Consulting) to provide engineering services.	USAID/Jamaica will acquire architectural and engineering services to conduct regular inspections of the project sites to ensure that the quality of the materials used meets USAID standards.
	Noncompliance with contract specifications	High	High	USAID/Jamaica hired a monitoring firm (Wingerts Consulting) to provide engineering services.	USAID/Jamaica will acquire architectural and engineering services to conduct regular inspections of the project sites to ensure that the work complies with contract specifications. The architect/engineer will report non-compliance issues to the CTOs and the implementing partners and ensure that issues are timely resolved. The architect/engineer will ensure that the quality of the materials used meet USAID standards.
	Construction projects not resistant to hurricanes	High	High	USAID/Jamaica hired a monitoring firm (Wingerts Consulting) to provide engineering services.	USAID/Jamaica will acquire architectural and engineering services to conduct regular inspections of the project sites to ensure use of proper construction methods.

Risk Type	Risk	Significance of Risk	Likelihood of Occurrence	Control Activities	Actions to Take
	Inexperienced/unqualified contractors (poor workmanship)	High	Medium	USAID/Jamaica hired a monitoring firm (Wingerts Consulting) to provide engineering services. The engineer is present at bid openings and reviews recommendations for subcontractors from the quality surveyor. All subcontractors are pre-qualified prior to bidding.	USAID/Jamaica will acquire architectural and engineering services to conduct regular inspections of the project sites to ensure that the workmanship complies with USAID standards. Also, the firm will review and participate in the selection of subcontractors.
Environmental	Construction or repairs harm the environment.	High	Low	The Mission Environmental Officer conducted an Initial Environmental Examination for the entire program.	An environmental checklist should be prepared for each individual project site and should be reviewed by the Mission Environmental Officer prior to construction.
	Noncompliance with USAID and host government environmental regulations	High	Medium	The Mission Environmental Officer conducted an Initial Environmental Examination for the entire program	An environmental checklist should be prepared for each individual project site and should be reviewed by the Mission Environmental Officer prior to construction.

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