



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Jamaica's Hurricane Recovery and Rehabilitation Activities

AUDIT REPORT NO. 1-532-06-004-P
April 28, 2006

SAN SALVADOR, EL SALVADOR



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MEMORANDUM

TO: USAID/Jamaica Director, Karen D. Turner

FROM: Regional Inspector General/San Salvador, Timothy E. Cox “/s/”

SUBJECT: Audit of USAID/Jamaica’s Hurricane Recovery and Rehabilitation Activities (Report No. 1-532-06-004-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and have included your response in its entirety in Appendix II.

The report contains nine recommendations intended to improve the implementation of the hurricane recovery and rehabilitation activities in Jamaica. Based on your comments and documentation provided, management decisions have been reached for eight recommendations. A management decision will be made for Recommendation No. 6 upon USAID/Jamaica’s determination of the amount of recovery or the issuance of a bill for collection. Determination of final action will be made by the Audit Performance and Compliance Division (M/CFO/APC).

Again, I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

As part of its fiscal year 2006 audit plan, the Regional Inspector General/San Salvador performed this follow-up audit to answer the following question:

- Were the actions taken by USAID/Jamaica to address the recommendations made in Audit Report No. 1-532-05-008-P effective?

The Mission's actions in response to three of the five original recommendations in Audit Report No. 1-532-05-008-P were effective. These recommendations were related to obtaining qualified engineering services, conducting detailed voucher reviews prior to making payments, and conducting environmental assessments. The Mission's actions in response to the other two original recommendations were only partially effective. These recommendations were related to establishing clearly defined roles for mission staff and the mission's oversight contractor and achieving performance targets on time. (See pages 4 through 6.)

This report describes several issues that have affected the program:

- New housing construction in Grenada and Jamaica was not completed on schedule. (See page 7.)
- The cost of the new houses financed by USAID in Grenada was approximately one-third to one-half higher than the cost of comparable houses financed by the Government of Grenada and the cost of new houses financed by USAID in Jamaica was more than double the cost of comparable houses financed by the Government of Jamaica. (See page 9.)
- Ineligible costs of \$63,538 were charged to the program and costs of \$21,194 were incorrectly classified. (See page 12.)
- The Mission's management oversight model was not as effective as intended. (See page 13.)
- Work valued at about \$341,220 was not completed as planned. (See page 15.)

To address these issues, we are making nine recommendations related to formalizing revised targets for the program, developing a plan to complete construction of new houses and turn them over to beneficiaries, controlling the costs associated with any additional subcontracts, recovering ineligible costs that were charged to USAID, and ensuring that reconstruction work financed by USAID is completed so that planned benefits will be realized. (See pages 9 through 16.)

USAID/Jamaica concurred with nine of the ten recommendations included in our draft audit report. Based on additional information provided by the Mission concerning the tenth recommendation, we deleted the recommendation and the related narrative from the final audit report. Management decisions have been reached for eight of the nine recommendations in this final report. (See page 17.)

BACKGROUND

On October 12, 2004, following the devastation caused by Hurricane Ivan and several other hurricanes, Congress approved \$100 million of supplemental funding for reconstruction efforts in the Caribbean for a one-year period ending on December 31, 2005. Subsequently, this period was extended through June 30, 2006. USAID/Jamaica received the majority of the funds from the supplemental appropriation and allocated them as follows:

Table 1: Supplemental Funding Received by USAID/Jamaica

Island	\$ million
Grenada	\$40
Jamaica	18
Bahamas and Trinidad and Tobago	2
<i>Total</i>	<i>\$60</i>

As the preceding table shows, USAID/Jamaica's hurricane recovery and rehabilitation program was implemented primarily in Grenada and Jamaica. The \$58 million program in Grenada and Jamaica consisted of the following components:

- *Community Rehabilitation (\$20.7 million)* – 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 (\$13.8 million)* – Activities included job skills training, grants 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 the Jamaica Exporter's Association in Jamaica.
- *Schools Rehabilitation and Re-Supply (\$12.8 million)* – 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 (\$8 million)* – Activities included paying certain government utility costs for the Government of Grenada. The implementing partner was Wingerts Consulting, Inc.

Also included in the \$58 million budget was \$2.7 million for Wingerts Consulting to assist with oversight of the other contractors. The hurricane recovery program was implemented through coordination with the Governments of Jamaica and Grenada, other donors, and implementing partners. In Jamaica, the Government established an agency – the Office of National Reconstruction (ONR) – to manage and coordinate reconstruction activities in the country. ONR played a significant role in USAID's housing reconstruction efforts because it was responsible for identifying suitable sites for new houses to replace those that were destroyed, site preparations, and site development (i.e., electricity, roads, and water and sanitation systems).

In February 2005, RIG/San Salvador conducted an audit of the hurricane program to determine what steps USAID/Jamaica had implemented to manage the program and if the management processes established for program activities were operating as designed. The audit report (Report No. 1-532-05-008-P dated April 12, 2005) identified 12 control activities implemented by USAID/Jamaica to manage risks related to program implementation. Of the 12 control activities, 4 were operating as designed, 3 were started, but not far enough along to assess whether they were operating as designed, and 5 were not operating as designed. RIG/San Salvador made five recommendations related to the following:

1. Obtaining qualified engineering services.
2. Conducting detailed voucher reviews before making payments to contractors.
3. Conducting environmental reviews.
4. Establishing clearly defined roles for Mission cognizant technical officers (CTOs)¹ and the Mission's oversight contractor.
5. Achieving performance targets on time.

AUDIT OBJECTIVE

As part of its fiscal year 2006 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Were the actions taken by USAID/Jamaica to address the recommendations made in Audit Report No. 1-532-05-008-P effective?

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

¹ CTOs are appointed by USAID contracting officers and are responsible for providing technical direction to contractors.

AUDIT FINDINGS

Were the actions taken by USAID/Jamaica to address the recommendations made in Audit Report No. 1-532-05-008-P effective?

USAID/Jamaica took actions to implement all five of the recommendations in our original audit report. The Mission's actions in response to three recommendations, related to obtaining qualified engineering services, conducting detailed voucher reviews, and conducting environmental reviews, were effective. However, the Mission's actions in response to two other recommendations, related to establishing clearly defined roles for its CTOs and its oversight contractor, and achieving performance targets on time, were only partially effective. The following sections discuss the recommendations made in our original report, the Mission's actions taken on those recommendations, and our conclusions concurring with the effectiveness of the Mission's actions.

Original Recommendation No. 1 – We recommended that USAID/Jamaica (1) verify that quality control procedures were 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.

In response to our recommendation, the Mission (through Wingerts Consulting) hired additional engineers to verify the control procedures designed by implementing partners and oversee and monitor quality control reviews conducted by subcontractors to mitigate quality risks. Quality control oversight was provided on an on-going basis. Wingerts' engineers regularly visited sub-contractor building sites to determine if third party architectural and engineering services were engaged and quality controls were in place and actively applied. In consultation with USAID/Jamaica's CTOs, Wingerts developed a site monitoring plan for each construction project. The engineers visited each construction project according to the plan, discussed any issues with the CTOs, prepared site visit reports, discussed the reports with CTOs (as needed), and provided copies of the reports to the CTOs.

We concluded that the Mission's actions for obtaining engineering services (through Wingerts) were effective because 1) according to Mission officials and Planning and Development Collaborative International (PADCO) officials, Wingerts engineers played an important role in monitoring quality control and for helping to ensure that the construction projects met intended standards (e.g., Wingerts engineers raised quality control issues that helped ensure the quality of construction), and 2) during our site visits to construction sites, we did not observe any quality risk factors (e.g., obvious construction defects).

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

In response to our recommendation, the Mission began reviewing supporting documentation for contractor invoices on a bi-weekly basis to ensure that all payments made were authorized, properly supported, and valid.

We concluded that the Mission's actions to address this recommendation were effective because our testing of \$23.5 million in payments disclosed an error rate of only 0.3 percent (i.e., the Mission's voucher review process was 99.7 percent effective for the items we tested). (See discussion on page 12.)

Original Recommendation No. 3 – We recommended that USAID/Jamaica complete an environmental checklist for each project site, which would then be reviewed by the Mission Environmental Officer.

In response to our recommendation, the Mission developed and implemented an environmental monitoring system whereby the CTOs and contractors prepared and completed environmental assessments which were reviewed and approved by the Mission Environmental Officer.

We determined that the Mission's actions for conducting environmental assessments were effective in the sense that they achieved the intended effect and helped the program avoid environmental issues that otherwise could have potentially impeded implementation of the program. In our testing, we noted that proper environmental assessments and approvals were obtained for construction sites and noted that the program did not experience any problems with environmental issues that were not handled in a timely manner.

Original Recommendation No. 4 – We recommended that USAID/Jamaica establish clearly defined roles and responsibilities for its cognizant technical officers and for the members of the monitoring oversight firm as they related to the hurricane recovery and rehabilitation program.

In response to our recommendation, the Mission prepared a written document which clearly defined roles and responsibilities for the CTOs and Wingerts Consulting.

Although the Mission made efforts to better define the relationships and responsibilities of the CTOs and Wingerts Consulting, we concluded that the mission's action in response to the recommendation was only partially effective. Because the other implementing partners were not accustomed to having Wingerts perform functions that USAID staff would normally perform, working relationships were sometimes uncomfortable and required USAID staff to mediate between Wingerts and the implementing partners. These difficulties decreased over time but continued at a reduced level throughout the program. The delays and high costs discussed on pages 7 through 12 also indicate that the management model including Wingerts Consulting was not as effective as intended. (See discussion beginning on page 13.)

Original Recommendation No. 5 – We recommended 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.

In response to our recommendation, the Mission maintained a monthly spreadsheet of target due dates for each activity and conducted monthly meetings with contractors to

review progress of each activity. The Mission also implemented monthly monitoring reports that covered financial, administrative, procurement, and technical management of the contractors. In addition, the contractors were required to submit monthly reports to the Mission on their progress towards achieving targets. The CTOs assessed progress towards achieving targets each month and adjusted the targets based on actual experience.

Although the Mission made efforts to monitor program progress, we determined that it was only partially effective in doing so because the program experienced significant delays with the construction of the new houses in both Grenada and Jamaica. In addition, several targets (for new housing construction, institutional structure repairs, and housing repairs) in Grenada and Jamaica were informally revised after the most recent amendment to the contract was signed. Moreover, targets were reduced to less than half the original targets four months before the end of the program. It appeared to us that targets were not actually used to manage the program. (See discussion beginning on page 7.)

It should be noted that USAID/Jamaica faced some very difficult constraints in implementing the program. First, the supplemental appropriation required that the Mission obligate and spend all funds in a one-year period (later extended to one and a half years). Under the best of circumstances, this would have been a difficult task. Second, when the hurricanes struck, USAID/Jamaica had recently undergone a reduction in force affecting its foreign service national staff, and both the U.S. direct hire and local staff were relatively inexperienced. Third, the supplemental appropriation tripled the Mission's budget, straining staff resources. While this report describes several problems affecting the hurricane recovery and rehabilitation program, it needs to be recognized that the positive results achieved under the program to date reflect the dedicated efforts of Mission staff and its contractors over an extended period. For example, USAID/Jamaica reported the following accomplishments under the hurricane program:

- In Jamaica, approximately 9,700 grants were made to small and medium businesses. Through these grants, and through timely technical assistance, USAID has helped farmers apply new technologies and practices on their farms. Many farmers are reaping harvests with yields surpassing traditional cultivation methods, resulting in increased incomes. According to Mission statistics, the value of agricultural production by program clients is estimated to have increased by 41 percent over their 2003 (pre-Hurricane Ivan) production levels.
- In Grenada, approximately 2,500 people have been trained in tourism, construction, and other skill areas. According to a recent analysis conducted by Carana Corporation, approximately 50 percent of the people trained in construction were employed.
- USAID has helped the Government of Grenada maintain key government operations after Hurricane Ivan destroyed much of its tax base. To date, USAID has expended approximately \$5.7 million and has rescheduled approximately 87 percent of commercial debt.

- In Jamaica and Grenada, approximately 990 houses and 65 schools have been repaired.



Photo taken on January 19, 2006 by an OIG auditor of a newly constructed school (Happy Hills) financed by USAID/Jamaica in Grenada. The school was open and operational on January 1, 2006.

The following sections of the report describe problems that have affected the program.

New Housing Construction Was Delayed

Summary: Based on the contract and a subsequent informal agreement, USAID/Jamaica expected PADCO to complete 55 new houses in Grenada and 186 new houses in Jamaica by March 31, 2006. However, progress was slow and targets were not met by that date in either country. Delays in Grenada were caused primarily by the poor performance of PADCO's only subcontractor, and delays in Jamaica were caused primarily by the slow performance of Office of National Reconstruction (ONR), which was responsible for site selection and preparation and provision of electricity, water, septic tanks, and roads. As a result, the families who were expected to occupy the new houses continue to live in substandard conditions in makeshift shelters.

According to the contract between USAID/Jamaica and PADCO, PADCO was to construct 150 new houses in Grenada and 200 new houses in Jamaica during a one-year period ending on December 31, 2005. Based on a contract amendment and a subsequent informal agreement, these targets were reduced to 55 houses in Grenada and 186 houses in Jamaica, and the completion date was extended to March 31, 2006.² However, progress was slow and targets were not met as of March 31, 2006, in either country.³

² In addition to the target for new housing construction in Grenada, informal agreements were reached to revise many other targets after the most recent amendment to the contract with PADCO. Specifically, the number of institutional structures to be built in Grenada was informally reduced from 8 to 5, the number of schools was increased from 19 to 20, the number of houses targeted for major repairs in Jamaica was reduced from 232 to 96, and the number of schools to be repaired in Jamaica was reduced from 52 to 47.

³ In Grenada, according to mission officials, as of April 26, 2006, 9 houses have been completed, 28 houses are 95-100 percent completed, 9 houses are 51-94 percent completed, and 9 houses are under 50 percent completed. In Jamaica, as of April 26, 2006, no houses have been completed. However, the mission estimates that the overall completion of the houses is 92 percent and expects 30 houses to be completed by the end of April. The completion date for the construction of 55 new houses in Grenada and 186 new houses in Jamaica has been extended to June 30, 2006.

Grenada – In Grenada, construction delays have been caused by several factors. Most importantly, PADCO decided to use only one subcontractor. According to officials we interviewed at PADCO, the Housing Authority, and the Agency for Reconstruction and Development⁴ in Grenada, the subcontractor has performed poorly. In addition, there were shortages of labor and construction materials, especially cement, and heavy rains also interfered with construction. Shortages of skilled labor and materials and poor weather are constraints that are present in nearly all disaster reconstruction projects, and these factors should have been anticipated by PADCO and incorporated into its construction plans. Moreover, in our previous audit report, we identified these factors as significant risks and advised the Mission to take preventive measures (through its contractors) to prevent these factors from causing implementation delays. In the report, we noted that, to prevent delays from occurring, the Mission should make sure that its contractors (1) procured materials and supplies well in advance, (2) monitored subcontractors carefully to ensure that sufficient human resources were available and be prepared to replace subcontractors quickly if problems arose, and (3) anticipated the rainy season and planned construction activities accordingly. However, PADCO did not take any of these actions and neither the Mission nor Wingerts Consulting responded effectively to PADCO's inaction.

Jamaica – In Jamaica, as in Grenada, progress was slow and the new houses were not completed on schedule. According to PADCO and USAID/Jamaica staff, the houses were not completed by the original deadline of December 31, 2005 because ONR was slow to select construction sites and prepare them for PADCO. As in Grenada, PADCO also cited heavy rains as a cause of construction delays.

At the time of our audit fieldwork, PADCO officials believed that they could complete all of the houses by March 31, 2006, but expressed concern that the houses may not be available to turn over to beneficiaries because ONR has not even started the infrastructure work (i.e., electricity, roads, and water and sanitation systems) promised. According to PADCO officials, ONR continues to make promises to complete the required infrastructure work, but has not shown any progress. For example, ONR has not installed electricity, running water has not been tested, roads have not been paved, and septic tanks have not been installed. To reduce the risk of theft and vandalism, PADCO has been reluctant to install fixtures like sinks until utilities have been connected and the houses are ready to occupy. A contributing cause of these problems, in our opinion, was the fact that no written agreement was ever signed with ONR; instead, the Mission and PADCO relied on informal understandings and verbal agreements.

⁴ The Housing Authority was an entity established prior to the hurricanes that participated in its own reconstruction efforts in Grenada. The Agency for Reconstruction and Development was established as a result of the hurricanes to manage and coordinate reconstruction activities.



Photo taken by an OIG auditor on January 16, 2006 of a new house under construction in Grenada financed by USAID/Jamaica.



Photo taken by an OIG auditor on January 16, 2006 of a makeshift shelter being occupied by a family of 6 people waiting for the new house (on the left).

As a result of the construction delays discussed above, planned beneficiaries have not been able to move into the new houses but instead continue to live in difficult conditions in temporary shelters that they have built for themselves.

Recommendation No. 1: We recommend that USAID/Jamaica execute a contract amendment to ratify the informal changes to output targets that have been agreed upon by USAID/Jamaica and Planning and Development Collaborative International (PADCO).

Recommendation No. 2: We recommend that USAID/Jamaica obtain from Planning and Development Collaborative International (PADCO) a plan for correcting the performance of its subcontractor or obtaining the services of additional subcontractors to expeditiously complete new home construction in Grenada.

Recommendation No. 3: We recommend that USAID/Jamaica negotiate a written agreement with Office of National Reconstruction (ONR) that describes the work to be performed by ONR and a timeline for completing the work.

Recommendation No. 4: We recommend that USAID/Jamaica finalize written arrangements for acceptance of completed houses in Jamaica and turning them over to beneficiaries.

Housing Construction Costs Were Excessive

Summary: The cost of the new houses financed by USAID/Jamaica exceeded the cost of comparable houses financed by the Housing Authority in Grenada and ONR in Jamaica by 37 percent to 126 percent. The cost was excessive because PADCO was not familiar with local market conditions and negotiated unfavorable fixed prices with its subcontractors. A contributing cause was that USAID/Jamaica, instead of negotiating fixed unit prices with its contractor, agreed to a cost-reimbursement contract that allocated all of the cost risk to the Mission. As a result, fewer houses than planned can be built with available funds and fewer people will benefit from the reconstruction program.

In Grenada, the cost of the houses financed by USAID/Jamaica was 37 percent to 49 percent more than comparable houses financed by the Housing Authority for resale to the public. (The homes financed by the Housing Authority were built during the same time period as those financed by USAID/Jamaica and included comparable amenities such as electricity, roads, and water and sanitation hookups.) The following table compares the cost of houses financed by USAID/Jamaica (through PADCO) and the Housing Authority in Grenada:

Table 2: Housing Cost Comparisons for Grenada

USAID			The Housing Authority			Excess Cost Per Square Foot
House Size	Cost	Cost Per Square Foot	House Size	Cost	Cost Per Square Foot	
400 sq. ft. (2 bedrooms)	\$23,467	\$59	510 sq. ft. (2 bedrooms)	\$21,715	\$43	37%
600 sq. ft. (3 bedrooms)	\$38,133	\$64	942 sq. ft. (3 bedrooms)	\$40,895	\$43	49%



Photo taken by an OIG auditor on January 16, 2006, of a 400 square foot hurricane-resistant wooden house in Grenada financed by USAID/Jamaica that was still under construction.



Photo taken by The Housing Authority in December, 2005, of a 510 square foot steel frame house with a tile panel roofing system. This house was built during the hurricane reconstruction period for resale to the public in Grenada.

In Jamaica, the cost of the houses built by PADCO was more than double the cost of comparable houses built with the same materials and offering comparable amenities. The following table compares the cost of houses financed by USAID/Jamaica and ONR in Jamaica.

Table 3: Housing Cost Comparison for Jamaica⁵

USAID			ONR			Excess Cost Per Square Foot
House Size	Cost	Cost Per Square Foot	House Size	Cost	Cost Per Square Foot	
220 sq. ft. (Studio)	\$13,500	\$61	340 sq. ft. (1 bedroom)	\$9,200	\$27	126%



Photo taken on January 13, 2006 by an OIG auditor of a house financed by USAID/Jamaica in Jamaica still under construction.



Photo taken on January 13, 2006 by an OIG auditor of a house built by the ONR in Jamaica.

The cost of USAID-financed houses was excessive because PADCO was not familiar with local market conditions and negotiated unfavorable fixed prices with its subcontractors. A contributing cause was that USAID/Jamaica, instead of negotiating fixed unit prices with its contractor, agreed to a cost-reimbursement contract that allocated most of the cost risk to the Mission. This is an unorthodox method of contracting for construction services. Finally, the Mission approved the subcontracts entered into by PADCO even though the prices were unreasonably high. This indicates that the Mission did not perform adequate technical, engineering, and financial planning prior to initiating the new housing construction activity. It also indicates that Wingerts Consulting, the Mission's oversight contractor, was not sufficiently familiar with local market conditions and did not perform adequate analysis to determine the reasonableness of the subcontractor costs in order to properly advise the Mission.

The high cost of constructing the new homes limited the program's efficiency and ultimately its effectiveness, since the Mission will only be able to finance 241 new houses versus the 350 new houses originally agreed to in the contract with PADCO. As a result, the Mission will not be able to help the expected number of people who were affected by the hurricanes. Since PADCO has already negotiated fixed rates with its subcontractors, costs may not rise further. If, however, PADCO enters into additional subcontracts, the Mission should assure itself that the negotiated fixed prices are reasonable.

⁵ We used an exchange rate of \$60 Jamaican dollars to \$1USD.

Recommendation No. 5: USAID should examine the costs of comparable new houses and conduct adequate technical, engineering, and financial planning prior to approving any additional subcontracts negotiated by Planning and Development Collaborative International (PADCO).

Ineligible Costs Were Charged to the Program

Summary: Section 31.201-3 of the Federal Acquisition Regulations (FAR) requires costs to be reasonable, allocable, and allowable under the terms of the contract. However, we identified \$63,538 in ineligible costs (mainly representing charges for staff who were not working on USAID-funded projects as well as lodging, per diem, and staff charges that were unreasonable) and \$21,194 in improperly classified expenses. These charges, representing 0.3 percent of the expenses we tested, occurred because of oversights by USAID/Jamaica and PADCO. As a result, fewer funds were available to pay allowable program costs.

According to FAR 31.201-3, costs must be reasonable, allocable, and allowable. A cost is considered reasonable if it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. A cost is considered to be allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. A cost is allowable if it conforms to agreement provisions.

The audit disclosed \$63,538 in ineligible costs (costs that are not reasonable, allocable, or allowable under the terms of PADCO's contract) and \$21,194 in improperly classified costs (costs that were charged to wrong projects) charged to USAID. These costs are summarized in the following table.

Description	Ineligible Costs	Improperly Classified
Non-project staff charges – several PADCO staff members charged time, travel, and other expenses to the project although they did not work on the contract.	\$32,409	
Charges made after termination – several PADCO staff members continued to charge time, travel, and other expenses after ending their involvement with the contract.	7,594	
Lodging, per diem, and staff charges that, based on discussions with USAID staff, were considered to be unreasonable in amount.	22,925	
Duplicate payment – a duplicate payment was made for an allowance paid to a PADCO staff member.	610	
Charges to wrong country – expenses were charged to the correct project (i.e., schools) but to the wrong country (i.e., Jamaica instead of Grenada).		\$16,304
Charges to wrong project – expenses were charged to the wrong project (i.e. housing expenses were charged to schools).		4,890
Total	\$63,538	\$21,194

The total ineligible and misclassified expenses represent approximately 0.3 percent of the \$23.5 million in expenses we reviewed. We concluded that USAID/Jamaica's voucher review process was a sound one; however, \$63,538 in ineligible costs were paid because of oversights by USAID/Jamaica and PADCO. As a result, fewer funds were available to pay allowable program costs.

Recommendation No. 6: We recommend that USAID/Jamaica make a management decision with regard to the ineligible questioned costs of \$63,538 and recover from Planning and Development Collaborative International (PADCO) the amounts determined to be unallowable.

Recommendation No. 7: We recommend that USAID/Jamaica reclassify \$21,194 of misclassified expenses to the proper projects and countries.

Management Oversight Model Was Not As Effective As Intended

Summary: USAID/Jamaica contracted with Wingerts Consulting to perform functions that would typically be performed by USAID staff. Wingerts was engaged to monitor, review, and provide expert assessments to USAID of the processes and documentation utilized by the implementing contractors to assure cost reasonableness, quality control, delivery of final product, and, ultimately, to serve as an extension of the Mission. Wingerts worked with the CTOs and the implementing contractors to provide pre-tender and pre-award certifications, perform site visits and environmental monitoring during execution of construction contracts and grants, and prepare progress reports on activities undertaken by implementing partners. While this oversight model was innovative and had the advantage of reducing USAID/Jamaica's heavy workload, the model was problematic in that the implementing partners were not accustomed to having Wingerts perform functions that USAID staff would normally perform. USAID staff believed that they could have helped mitigate some of the problems experienced by Wingerts by better introducing Wingerts, and the somewhat unusual role that Wingerts was expected to play, to the other partners on the hurricane program. As a result, working relationships were sometimes uncomfortable and required USAID staff to mediate between Wingerts and the implementing partners. These difficulties decreased over time but continued at a reduced level throughout the program.

On January 16, 2005, USAID/Jamaica contracted Wingerts Consulting to serve as the Mission's on-site management contractor. In this capacity, the Wingerts team acted as an extension of the USAID/Jamaica staff, which was tasked with overseeing hurricane recovery activities. Specifically, Wingerts Consulting was responsible for the following tasks:

1. Performing USAID representation and liaison functions (i.e., establishing and maintaining regular communications with CTOs, the U.S. embassies in Grenada and Jamaica, key government officials in Grenada and Jamaica, and NGOs).
2. Ensuring regular and timely progress reporting and overall program analysis (i.e., consolidating reporting results of implementing partners and preparing narrative reports).

3. Preparing and disseminating special reports, including evaluations (i.e., responding to inquiries and preparing special reports that require research).
4. Planning and coordinating USAID public relations activities.
5. Organizing monthly USAID special program objective team meetings.
6. Developing and monitoring implementation of assistance in the Bahamas and Trinidad and Tobago (i.e., helping USAID and PADCO agree on final design of assistance activities and help CTOs oversee implementation of the \$2 million obligated for assistance in the other islands).
7. Developing and maintaining partnership with CTOs and USAID implementing partners (i.e., helping CTOs oversee implementation of the program).
8. Providing specialized engineering assistance (i.e., performing functions that would typically be performed by a USAID staff engineer such as monitoring and reviewing the processes utilized by the implementing contractor to assure cost reasonableness, quality control, and delivery of a final product that is consistent with the results expected).
9. Performing general management responsibilities.
10. Providing logistics assistance to USAID staff, VIPs, and USAID partners.
11. Managing the Government of Grenada support program.

As this listing of responsibilities shows, Wingerts performed numerous functions that would normally be performed by USAID staff. USAID/Jamaica decided to contract out these functions because its own staff was relatively inexperienced and because the Mission believed it would take longer to hire USAID staff than it would take a contractor to mobilize to perform the same functions. However, according to several USAID staff, the Wingerts contract caused discomfort for the Mission, the implementing partners, and Wingerts itself because Wingerts performed functions that would normally be performed by others. It was several months into the contract before the roles and responsibilities of each party were better defined. Still, the discomfort and difficulties continued, although at a reduced level, and caused USAID staff to be mediators between the implementing partners and Wingerts Consulting. The construction delays and high costs discussed on pages 7 through 12 above also cast doubt on the effectiveness of the management model in which Wingerts Consulting performed functions that would normally be performed by USAID staff.

According to the Mission Director, this was the first time that this management model has been used by USAID. The model was used for several reasons: it helped compensate for the relative inexperience of the Mission's CTOs, it provided a high degree of flexibility, and it gave the Mission access to skills (e.g. engineering skills) that were not available among its own staff. USAID staff believed that they could have eased some of the problems experienced by Wingerts if they had more carefully introduced Wingerts, and the unusual role Wingerts was expected to play, to the other partners under the hurricane program.

We are not making any recommendations on this matter since the program is ending. However, the Mission should document its experience with this management model in its lessons learned from the hurricane recovery and rehabilitation program.

Some Work Was Not Completed As Planned

Summary: Work valued at about \$341,220 was not completed as planned. These situations, where work was only partially completed, reflected weaknesses in oversight by USAID's partners. As a result, \$123,720 in USAID funds are available to be reprogrammed for use elsewhere by PADCO. Also, the intended benefits from grants totaling \$217,500 have not yet been realized.

We examined infrastructure projects and grants valued at about \$2.3 million and noted cases valued at \$341,220 where subcontractors had not completed work as required by their subcontracts, or where follow up was needed so that the benefits envisioned under specific grants would be realized. The following is a summary of these instances:

- In Grenada, PADCO has decided not to complete 5 of the 60 houses it agreed to construct (according to the contract modification dated August 12, 2005). PADCO made these decisions because of land ownership issues, because another donor had already provided a house for the planned beneficiary, or because the planned beneficiary decided not to participate in the program. Three of the five houses were cancelled before construction began and two were substantially completed before PADCO decided they should not be completed. After taking into consideration the work that has already been performed, approximately \$117,800 is available to be reprogrammed for other uses under PADCO's contract, and ultimately to be returned to USAID at the end of the program if no additional costs are incurred by the contractor. PADCO needs to issue a change order to its subcontractor to reflect the cancellation of the five houses.
- In Jamaica, two houses were included in a subcontract as a core rebuild, with an average cost of \$7,300. However, the two houses were subsequently changed to receive only major repairs (mainly new roofs) with an average cost of \$4,500. Change orders should be prepared to reflect the actual work performed on the houses. The cost difference between a core rebuild and a major repair for two houses is approximately \$5,600.
- In Jamaica, at one house, electrical work was supposed to be installed, but was not. A change order should be prepared to reduce the contract value for electrical work not installed. The cost for the electrical work is approximately \$320.
- In Grenada, USAID awarded approximately \$100,000 to Belmont Plantation Company to support the restoration of the plantation's restaurant and museum operations. The support included reconstruction of the restaurant and museum which included the foundation, floor, roof structure, doors, kitchen vanities, plumbing, electrical, and painting. The grant has ended, but only the foundation of the restaurant has been completed and the museum also requires a great deal

of work to be completed. Also, the grant financed window blinds for the restaurant and other items for the museum that have not yet been delivered.

- In Grenada, USAID provided a \$100,000 grant to De La Grenade Industries Ltd. (a food processing business) for roofing repairs and a new production line. The roofing materials have been purchased and delivered to the construction site but little work has been done on the roof. The owner of the company has made several requests to the construction company but is uncertain when the roof will be installed. Furthermore, the equipment purchased for the new production line has not yet been operational.
- In Grenada, a grant was provided to South Coast Holdings, Ltd. to finance new software at a cost of \$17,500. The software was delivered several months ago but had not been installed as of January 20, 2005.

These situations reflected weaknesses in management and oversight by PADCO, Wingerts Consulting, and the Carana Corporation. As a result, \$123,720 in USAID funds are available to be reprogrammed for use elsewhere by PADCO. Also, the intended benefits from grants totaling \$217,500 have not yet been realized.

Recommendation No. 8: We recommend that USAID/Jamaica obtain evidence that Planning and Development Collaborative International (PADCO) has processed change orders for \$123,720 for work that was not completed by subcontractors as planned.

Recommendation No. 9: We recommend that USAID/Jamaica obtain evidence that the planned benefits of grant activities have been realized.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Jamaica's comments to the draft report are included in Appendix II.

The Mission agreed with nine of the ten recommendations in the draft audit report. For the tenth recommendation, the Mission provided additional information explaining why an activity that did not initially appear to us to respond to the effects of Hurricane Ivan was in fact related to hurricane reconstruction. Based on the additional information provided, we have deleted the tenth recommendation and the related narrative from this final audit report.

Management decisions have been reached for all of the recommendations included in this final report except for Recommendation No. 6. In order to record a management decision for this monetary recommendation, USAID/Jamaica needs to reach a firm management decision on the amount, if any, to be recovered from Planning and Development Collaborative International (PADCO). Determination of final action for all of the report recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. The audit was performed in Jamaica and Grenada at the offices of USAID/Jamaica, CARANA Corporation, Planning and Development Collaborative International (PADCO), governmental offices and selected program communities. Fieldwork was conducted from January 10, 2006 through February 6, 2006. The purpose of this audit was to follow up on the recommendations made in our original report.

In February 2005, the Regional Inspector General/San Salvador conducted an audit of the hurricane program to determine what steps USAID/Jamaica implemented to manage its hurricane recovery and rehabilitation program and if the management processes established for the hurricane recovery and rehabilitation activities were operating as designed (Report No. 1-532-05-008-P dated April 12, 2005). RIG/San Salvador made recommendations to USAID/Jamaica related to (1) obtaining qualified engineering services, (2) conducting detailed voucher reviews before making payments to contractors (3) conducting environmental reviews, (4) establishing clearly defined roles for its cognizant technical officers (CTOs) and oversight contractor, and (5) achieving performance targets on time. This audit was conducted to determine if the actions taken by USAID/Jamaica to address the recommendations from audit report (Report No. 1-532-05-008-P) were effective.

In planning and performing the audit, we reviewed and assessed the effectiveness of USAID/Jamaica internal controls related to the Hurricane Recovery and Rehabilitation Program. The significant USAID/Jamaica controls reviewed included obtaining qualified engineering services, conducting detailed voucher reviews, establishing roles and responsibilities for the oversight contractor and CTOs, reviewing contractor performance and financial reports, conducting site visits, and maintaining regular contact with the contractors.

To determine if the Mission obtained qualified engineering services, conducted environmental reviews, and achieved performance targets on time, we conducted site visits covering new housing construction, housing repairs, schools repairs and reconstruction, and business revitalization activities in Jamaica and Grenada. Specifically, In Jamaica:

- Out of a total of 186 new homes constructed in two communities, Rocky Point and Portland Cottage, we visited both communities and examined a judgmental sample of 10 houses.
- Out of a total of 932 housing repairs being worked on by 22 subcontractors, we judgmentally selected 3 subcontractors (based on location), and visited a total of 18 housing repair jobs.
- Out of a total of 49 schools being repaired by the program, we judgmentally selected (based on location) 2 schools to visit.

- Out of a total of 3,088 fisherman and craft shops assisted by the program we judgmentally selected (based on location) a total of 8 fisherman and 3 craft shops.

In Grenada:

- Out of a total of 60 new houses being built under the program, we judgmentally selected (based on progress and size) 13 for site visits.
- Out of a total of 675 housing repairs awarded to 28 organizations, we judgmentally selected (based on the value of the grant) 3 organizations for a total of 8 housing repairs.
- Out of a total of 17 school repairs, we judgmentally selected (based on progress and the value of repairs) 6 schools for site visits.
- Out of 192 grants provided to small and medium enterprises, we judgmentally selected (based on value and type of grant) 8 grants for review.

For all the site visits made, we judgmentally selected 10 engineering reports and 12 environmental assessments to review. We reviewed the engineering reports during our site visits to ensure that issues identified in the reports were properly resolved. We reviewed environmental assessments to ensure that they were properly completed and approved by the Mission. To determine the effectiveness of the voucher reviews, we reviewed all vouchers submitted as of January 20, 2006 which included the November 30, 2005 vouchers.

The audit covered community and schools rehabilitation activities implemented by Planning and Development Collaborative International (PADCO) in both Grenada and Jamaica. The audit also covered business and agriculture rehabilitation activities implemented by CARANA Corporation in Grenada and Development Alternatives Inc./Fintrac and the Jamaica Exporter's Association in Jamaica. As of December 31, 2005, \$49 million of the \$58 million has been spent on the program.

Methodology

To answer the objective described in the scope section, we reviewed contract agreements with implementing partners and the bilateral agreement with the Government of Jamaica, implementing partners' monthly progress reports, Wingerts monthly progress reports, engineering reports, and environmental reports. We also verified actual results during the site visits for the activities mentioned in the scope section. We interviewed cognizant technical officers, implementing partner officials, host government officials, and selected beneficiaries

In addition, we reviewed all vouchers submitted by PADCO to USAID as of January 20, 2006, which covered vouchers submitted through November 30, 2005. We reviewed the vouchers to determine if staff charged to the projects actually worked on the projects, per diem and lodging charges were allowable in accordance with contract provisions, and costs were charged to the correct projects. We also conducted tests to detect

duplicate charges. Our review consisted of reviewing detailed vouchers (statements of expenses) and did not include reviewing supporting documents such as invoices or timesheets except for selected charges that required clarification.

In answering the audit objective, we considered exceptions totaling 5 percent or more of the cases tested to represent significant issues meriting reporting. We considered all ineligible and misclassified expenses to merit reporting.

MANAGEMENT COMMENTS



USAID/Jamaica Office of Financial Management

Memorandum

To: Timothy E. Cox, Regional Inspector General, San Salvador

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

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

Date: April 12, 2006

Subject: **Draft Report on Audit of USAID/Jamaica's Hurricane Recovery and Rehabilitation**
Program Reference: RIG Audit Report Number 1-XXX-06-0XX-P

We refer to your memorandum and draft report on the above-mentioned audit and now enclose our management comments to the ten (10) recommendations contained in your report.

Recommendation No. 1:

We recommend that USAID/Jamaica execute a contract amendment to ratify the informal changes to output targets that have been agreed upon by USAID/Jamaica and Planning and Development Collaborative International (PADCO).

USAID Jamaica-Car's Management Comments:

Agreed. Action will be completed in amendment to the Community Revitalization Task Order No. 802.

Recommendation No. 2:

We recommend that USAID/Jamaica obtain from PADCO a plan for correcting the performance of its subcontractor or obtaining the services of additional subcontractors to expeditiously complete new home construction in Grenada.

USAID Jamaica-Car's Management Comments:

Agreed. A comprehensive action plan has been developed for completing the houses. Monitoring will include weekly visits by the oversight engineer and the USAID/Jamaica-Car team. In addition, weekly updates on the status and projections for completion of the houses will be prepared.

Recommendation No. 3:

We recommend that USAID/Jamaica negotiate a written agreement with ONR that describes the work to be performed by ONR and a timeline for completing the work.

USAID Jamaica-Car's Management Comments:

Agreed. Negotiations are currently underway between governments to determine the optimal agreement mechanism.

Recommendation No. 4:

We recommend that USAID/Jamaica finalize written arrangements for acceptance of completed houses in Jamaica and turning them over to beneficiaries.

USAID Jamaica-Car's Management Comments:

Agreed. Negotiations are currently underway between governments to determine the optimal agreement mechanism. This will include the detailed requirements for the handing over of the houses.

Recommendation No. 5:

USAID should examine the costs of comparable new houses and conduct adequate technical, engineering, and financial planning prior to approving any additional subcontracts negotiated by PADCO.

USAID Jamaica-Car's Management Comments:

Agreed. No further subcontracts are anticipated. However, USAID Jamaica will utilize the best information available in approving future works including conducting adequate technical, engineering and financial planning.

Recommendation No. 6:

We recommend that USAID/Jamaica make a management decision with regard to the ineligible questioned costs of \$63,040 and recover from PADCO the amounts determined to be unallowable.

USAID Jamaica-Car's Management Comments:

Agreed. USAID/Jamaica has made a management decision to review the ineligible questioned costs and recover from PADCO the amounts that are determined to be unallowable.

Recommendation No. 7:

We recommend that USAID/Jamaica reclassify \$21,194 of misclassified expenses to the proper projects and countries.

USAID Jamaica-Car's Management Comments:

Agreed. USAID/Jamaica has made a management decision to reclassify the amounts determined to be misclassified.

Recommendation No. 8:

We recommend that USAID/Jamaica obtain evidence that PADCO has processed change orders for \$123,720 for work that was not completed by subcontractors as planned.

USAID Jamaica-Car's Management Comments:

Agreed. Change orders have been approved and contract modifications are currently underway for 5 houses in Grenada.

Recommendation No. 9:

We recommend that USAID/Jamaica obtain evidence that the planned benefits of grant activities have been realized.

USAID Jamaica-Car's Management Comments:

Agreed.

- (i) The effective completion date for the Belmont Plantation Company grant was extended to April 30, 2006 to enable completion of repair work to the museum.
- (ii) The roof repairs pertaining to the \$100,000 grant to La De LA Grenade Industries Limited has been completed and the equipment purchased for the new production line for \$45,000 has been placed in operation.
- (iii) With respect to the grant that was provided to South Coast Holdings, Ltd. to finance new software, the software installation has been completed.

Recommendation No. 10:

We recommend that USAID/Jamaica charge \$45,000 that was used for a new production line to another available appropriation.

USAID Jamaica-Car's Management Comments:

Disagreed. Approximately 50% of the operations of the food processing company depended on the supply of jams, jellies and syrup to the market, using raw materials from tree crops which were largely destroyed by the hurricane. In addition, the tree crops would take several years to begin bearing again. We approved the assistance to this sub-activity because the installation of the new plant line would use short-term crops to produce seasoning and condiments which provided diversification of the future risk of the plant. This was considered a viable venture for USAID/ Jamaica-Car's support given the various market linkages and jobs at risk and because revitalizing the economy was identified and agreed to as an important object of the Hurricane Program at the time the SpO was approved.

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