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OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/AFGHANISTAN'S
SCHOOL AND HEALTH CLINIC
RECONSTRUCTION ACTIVITIES**

AUDIT REPORT NO. 5-306-06-008-P
August 18, 2006

MANILA, PHILIPPINES



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

August 18, 2006

MEMORANDUM

TO: USAID/Afghanistan Director, Leon S. Waskin

FROM: Regional Inspector General/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Afghanistan's School and Health Clinic Reconstruction Activities
(Audit Report No. 5-306-06-008-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in Appendix II.

This report contains two recommendations to improve USAID/Afghanistan's school and health clinic reconstruction activities. Based on your comments, we consider that a management decision has been reached on Recommendation No. 1. Please provide the Audit, Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action in order to close this recommendation. Regarding Recommendation No. 2, we consider that final action has been taken on the recommendation.

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

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SUMMARY OF RESULTS

The Regional Inspector General/Manila conducted this audit to determine whether USAID/Afghanistan's school and health clinic reconstruction activities were on schedule to achieve planned outputs. (See page 3.)

USAID/Afghanistan's school and health clinic reconstruction activities were on schedule to achieve planned outputs. Specifically, at April 19, 2006, USAID/Afghanistan and its implementing partners were on schedule to complete 705 (91 percent) of the 776 school and health clinic buildings planned to be constructed or refurbished under the Schools and Clinics Construction and Refurbishment Program (SACCARP). Further, 511 of the 705 buildings had already been completed and turned over to the Government of Afghanistan. (See page 4.)

Although it was on schedule to achieve 91 percent of its planned outputs, it has taken USAID/Afghanistan much longer than anticipated to reach this point. Factors such as deteriorating security and weather restrictions, which were beyond the Mission's control, were often responsible for the roll back of completion dates and changes to the number of buildings to be reconstructed under the SACCARP. (See pages 5-6.) Although some factors were beyond its control, the Mission contributed to delays in getting 71 buildings completed. (See page 7.)

This report made two recommendations to improve USAID/Afghanistan's school and health clinic reconstruction activities. (See page 7.) In response to our draft report, USAID/Afghanistan concurred with the audit recommendations. Based on our evaluation of the Mission's comments and supporting documentation, we consider that a management decision has been reached on Recommendation No. 1 and final action has been taken on Recommendation No. 2. (See page 8.) USAID/Afghanistan's comments are included as Appendix II to this report. (See page 11.)

BACKGROUND

USAID/Afghanistan's school and health clinic reconstruction activities, now referred to as the Schools and Clinics Construction and Refurbishment Program (SACCARP), have had a history of changes to the number of schools and health clinics to be reconstructed and extensions to the dates by which the reconstruction was to have been completed.

In September 2002, under its Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan began to reconstruct schools and health clinics throughout Afghanistan. Initially, USAID/Afghanistan tasked The Louis Berger Group, Inc. (LBGI) to complete up to 40, 140, and 240 school and health clinic buildings cumulatively in calendar years 2003, 2004, and 2005, respectively.

In March 2004, USAID/Afghanistan removed all but 105 buildings from LBGI's contract because it was not satisfied with the contractor's progress on the school and health clinic buildings that it had begun to reconstruct in 2003.

In May 2004, USAID/Afghanistan entered into cooperative agreements with five international nongovernmental organizations, which along with LBGI were to reconstruct a total of 779 school and health clinic buildings. The Mission also found it necessary to revise its building-completion target date from June 2004 to September 2004.

In October 2004, the OIG audited the school and health clinic reconstruction activities. At that time, USAID/Afghanistan had planned to complete 533 buildings by December 31, 2004. Our audit reported that the Mission would complete only 328 buildings by December 31, 2004. In response to our audit recommendation, USAID/Afghanistan developed a new implementation plan, which set August 31, 2005, as the new target date to complete the 533 buildings.

In January 2006, USAID/Afghanistan confirmed to the OIG that it had not met the August 31, 2005, target date and that school and health clinic reconstruction activities were still ongoing. Consequently, the OIG decided to conduct a second audit of these activities.

Table 1 on page 4 shows that by the time our second audit began in April 2006, USAID/Afghanistan had increased the number of schools and health clinics it planned to reconstruct from 533 to 776 and the number of implementing partners from six to seven. Furthermore, the Mission did not plan to complete all 776 buildings until September 29, 2006.

At USAID/Afghanistan, the Office of Infrastructure, Engineering and Energy is responsible for overseeing the SACCARP. From September 2002 through April 2006, the Mission's total obligations and disbursements for the SACCARP were approximately \$92 million and \$81 million, respectively.

AUDIT OBJECTIVE

The Regional Inspector General/Manila added this audit to its fiscal year 2006 audit plan to answer the following question:

- Were USAID/Afghanistan's school and health clinic reconstruction activities on schedule to achieve planned outputs?

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

AUDIT FINDINGS

USAID/Afghanistan's school and health clinic reconstruction activities were on schedule to achieve planned outputs.

As Table 1 illustrates, at April 19, 2006, USAID/Afghanistan and its implementing partners were on schedule to complete 705 (91 percent) of the 776 school and health clinic buildings planned to be constructed or refurbished under the Schools and Clinics Construction and Refurbishment Program (SACCARP). Further, 511 of the 705 buildings had already been completed and turned over to the Government of Afghanistan.¹ The completed buildings consisted of 314 schools (90 newly constructed and 224 refurbished) and 197 health clinics (140 newly constructed and 57 refurbished).

**Table 1: School and Health Clinic Reconstruction Progress
(As of April 19, 2006)**

Implementing Partner	Award End Date	Planned Number of Buildings	Number of Completed Buildings	Number of Incomplete Buildings	On Schedule	
					Yes	No
Cooperative Housing Foundation International	11/30/2005	60	9	51	9	51
International Organization for Migration	12/15/2006 ²	454	299	155	454	0
The Louis Berger Group, Inc.	03/31/2006	105	90	15	90	15
Shelter for Life	03/30/2006	52	49	3	49	3
United Methodist Committee on Relief	02/28/2006	26	24	2	24	2
United Nations Office for Project Services	06/30/2006	70	40	30	70	0
U.S. Army Corps of Engineers	09/29/2006	9	0	9	9	0
Totals		776	511	265	705	71

¹ We classified a school or health clinic building as "completed" if it met USAID/Afghanistan's definition of "substantially completed", which was a building that could be safely and effectively used by the public without further delays, disruption, or other impediments.

² We used this date because, at the time of our fieldwork, USAID/Afghanistan had approved an action memorandum to modify International Organization for Migration's agreement, which included extending the agreement from May 31, 2006, to December 15, 2006.



OIG photograph of a school ready for inspection in Parwan, Afghanistan. (May 2006)



OIG photograph of a clinic that provides basic health care services to 35-40 patients per day in Paktya, Afghanistan. (May 2006)

At April 19, 2006, a total of 265 buildings were in various stages of completion. Seventy one of these buildings were not completed by the respective agreement or contract end date. On May 4, 2006, the Acting Mission Director signed an action memorandum to transfer most of the 71 buildings to the International Organization for Migration (IOM) and to extend IOM's agreement to December 15, 2006, to allow time for their completion. By the end of our fieldwork, the Mission had not modified IOM's agreement to reflect the transfer (see discussion at page 7).

Although it was on schedule to achieve 91 percent of the SACCARP's planned outputs, it has taken USAID/Afghanistan much longer than anticipated to reach this point. For example, although 511 buildings had been completed by April 19, 2006, the total is still less than the 533 buildings the Mission had previously planned to complete by December 31, 2004. As noted in the "Background" section of this report, the Mission, on a number of occasions, rolled back the dates by which it expected to complete reconstruction under the SACCARP. For example, the award end dates for five implementing partners were extended an average of three times since May 2004. Even with extensions, four implementing partners were not able to complete the 71 buildings discussed in the preceding paragraph—buildings originally scheduled to be completed by December 31, 2004.

Factors beyond USAID/Afghanistan's control were often responsible for the roll back of completion dates and changes to the number of buildings to be reconstructed under the SACCARP.³ These factors included:

- Deteriorating security. Since May 2004, 11 USAID-funded schools and health clinics have been damaged or destroyed by terrorist attacks. Seven of the 11 have been hit since the beginning of 2006, representing a recent upsurge of such attacks.

³ Some of these constraints have been reported on by the OIG and the General Accountability Office (GAO): OIG Report No. 5-306-05-003-P, dated March 14, 2005, "Audit of USAID/Afghanistan's School and Clinic Reconstruction Program"; and GAO-05-742, dated July 28, 2005, "Afghanistan Reconstruction: Despite Some Progress, Deteriorating Security and Other Obstacles Continue to Threaten Achievement of U.S. Goals".

- Poor subcontractor performance, compounded by the lack of skilled labor. Implementing partners have terminated a combined total of 31 subcontractors for poor performance, mismanagement, or other contract breaches.
- Questionable site selection. Afghan ministries, in some cases, selected hard-to-access sites for a school or health clinic. For example, the site selected for the Argo Primary School in Badakhshan province was on a mountain slope (see photographs below), which, according to a monitoring report obtained from the Mission, posed a danger to the school's stability during the rainy season.



U.S. Army Corps of Engineers photographs of the incomplete Argo Primary School built on the slope of a mountain in Badakhshan, Afghanistan. (May 2006)



- Weather restrictions. In certain areas, reconstruction has to halt during the winter.
- U.S. government expectations. Since the beginning of the SACCARP, the Mission has agreed to overly ambitious targets considering the environment in Afghanistan. Even after a March 2005 OIG report cited overly optimistic expectations as a problem; the Mission raised its target from 533 to 776 buildings.

Regarding overly optimistic expectations, a USAID/Afghanistan official explained that a high goal was set for the SACCARP because USAID and the U.S. Department of State wanted to ensure that Afghanistan “would not go back to where it was before”. One official added that the U.S. government initially thought that it needed to help 20 million people in Afghanistan, but now the country has 28 million people. So, he concluded, there is now a greater need for schools and health clinics.

Although some factors were beyond its control, we noted instances where USAID/Afghanistan should have taken more timely action to address performance issues affecting the SACCARP.

Reconstruction Issues Need Resolution

USAID's Automated Directives System Chapter 202.3.6.3 states that, depending on the situation, operating units may need to develop an entirely new activity and instrument, or simply modify and change an existing activity to ensure effective use of USAID funding.

USAID/Afghanistan did not take timely action to resolve issues involving 66 of the 71 schools and health clinics that were not completed on schedule. For example, from August 2004 to August 2005, The Louis Berger Group, Inc. repeatedly requested that the Mission allow it to terminate the reconstruction of 13 buildings because of precarious security at the project sites. However, as of May 17, 2006, the end of our audit fieldwork, the Mission had not taken any actions on the 13 partially completed buildings. In November 2005, the Mission did not extend its agreement with Cooperative Housing Foundation International (CHF) to construct 60 buildings because of past performance. It was not until May 4, 2006, however, that the Mission decided to transfer the 51 buildings that CHF did not complete to IOM and, as of May 17, 2006, it had not modified IOM's agreement to add the 51 buildings. Again in November 2005, when United Methodist Committee on Relief's (UMCOR) agreement ended, the Mission decided to transfer to IOM the two buildings that UMCOR did not complete. But, as of May 17, 2006, the Mission had not modified IOM's agreement to reflect the transfer.

In May 2006, the OIG reported that USAID/Afghanistan had not taken timely action on an issue affecting the performance of another program.⁴ The OIG recommended that the Mission establish procedures to document, track and promptly resolve significant issues uncovered in its own monitoring efforts that could affect the progress of its reconstruction activities. About the time our fieldwork ended on this audit, the Mission provided evidence that it had established such procedures, which, in the future, should help it identify and take timely action on issues such as those discussed in the preceding paragraph. Therefore, we are not making another recommendation here on the need for such systemic procedures, but we are making two recommendations specific to the 66 schools and health clinics.

By not taking timely action, USAID/Afghanistan contributed to delays in getting the 66 buildings completed. To help ensure the effective use of USAID funding, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/Afghanistan make a final decision on what to do with the 13 buildings that The Louis Berger Group, Inc. did not complete and take any actions necessary to carry out its decision.

Recommendation No. 2: We recommend that USAID/Afghanistan immediately modify the scope of work in its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the two buildings not completed by the United Methodist Committee on Relief.

⁴ OIG Report No. 5-306-06-005-P, "Audit of USAID/Afghanistan's Reconstruction of the Kandahar-Herat Highway Under the Rehabilitation of Economic Facilities and Services (REFS) Program".

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Afghanistan concurred with the two recommendations.

For Recommendation No. 1, USAID/Afghanistan management concluded that security conditions still prevented reconstruction of the 13 schools and health clinics that the Louis Berger Group, Inc. (LBGI) could not complete. Consequently, the Mission Director signed an action memorandum formally canceling work on the 13 buildings. However, LBGI's contract had not yet been modified to delete the buildings. We consider that a management decision has been reached on this recommendation; it can receive final action when LBGI's contract is modified. The Mission should coordinate final action with the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer. Although it canceled work on the 13 schools and health clinics, the Mission intends to annually review their situation to determine if it can complete them.

For Recommendation No. 2, USAID/Afghanistan management modified its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the two buildings not completed by United Methodist Committee on Relief. Consequently, we consider that final action has been taken on this recommendation.

USAID/Afghanistan's comments are included without attachments in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards to determine whether USAID/Afghanistan's school and health clinic reconstruction activities, now referred to as the Schools and Clinics Construction and Refurbishment Program (SACCARP), were on schedule to achieve planned outputs.

The audit covered SACCARP's planned outputs as of April 19, 2006, as contained in the Master List, the Mission's database for the school and health clinic buildings undergoing construction or refurbishment. As of April 2006, the Mission had recorded obligations of about \$92 million and disbursements of about \$81 million for SACCARP. The audit fieldwork was conducted from April 22 to May 17, 2006, at the Kabul offices of the Mission, the Afghan Ministries of Education and Public Health, and five implementing partners. The fieldwork included visits to ten project sites in the Badakhshan, Ghazni, Kabul, Logar, Paktya, and Parwan provinces of Afghanistan.

In planning and performing the audit, we reviewed and assessed the significant internal controls used by USAID/Afghanistan to ensure that SACCARP activities were on schedule to achieve planned outputs. The assessment included controls related to whether the Mission (1) conducted and documented site visits to evaluate progress and monitor quality; (2) reviewed progress and monitoring reports submitted by the implementing partners; (3) maintained a reliable tracking list or database on the progress of each project site; and (4) established and maintained a separate project file for each project site. We also reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2005 for any issues related to the audit objective. Finally, we reviewed relevant prior audit reports.

The planned outputs under SACCARP were the reconstruction of 776 schools and health clinics. USAID/Afghanistan maintained a master list of the 776 project sites. From this master list, we judgmentally selected 616 project sites to test whether the master list accurately and completely reported the reconstruction status of each school and health clinic.

Methodology

To answer the audit objective, we interviewed officials and staff from USAID/Afghanistan, the two host government ministries, and five of the seven implementing partners. We did not interview officials at Cooperative Housing Foundation International because it closed its offices in Kabul when its agreement with the Mission expired in 2005. We also did not interview officials of the U.S. Army Corps of Engineers because, at the time of our audit, it had not started to reconstruct any schools or health clinics.

In addition, we reviewed documentary evidence to test whether the project data in USAID/Afghanistan's master list accurately and completely reported the status of the 776 schools and health clinics that were to be reconstructed. The evidence included:

- Documents supporting the completion of a building, such as the substantial completion inspection punch list and USAID letters of award of substantial completion or final acceptance.
- Documents supporting the in-progress status of a building, such as implementing partners' progress reports and USAID monitoring reports and photographs taken at project sites.
- USAID's implementation plan.
- Implementing partners' contracts or agreements, their modifications, and related correspondence.
- Laws, regulations, and USAID policy and guidance related to the audit objective.

Furthermore, we reviewed project files for selected buildings maintained by the implementing partners and, to the extent permitted by security conditions, we visited project sites.

We answered the audit objective using the following parameters:

- The audit objective would be met if 90 percent of all planned outputs were achieved or were on schedule to be achieved by their latest award end date.
- The audit objective would be partly met if less than 90 percent, but not less than 70 percent, of all planned outputs were achieved or were likely to be achieved by their latest award end date.
- The audit objective would not be met if less than 70 percent of all planned outputs were achieved or were likely to be achieved by their latest award end date.

MANAGEMENT COMMENTS



USAID AFGHANISTAN
FROM THE AMERICAN PEOPLE

August 14, 2006

MEMORANDUM

TO: Catherine M. Trujillo, RIG/Manila,

FROM: Leon S. Waskin, Mission Director /s/

SUBJECT: USAID/Afghanistan - Response to Draft Audit Report - Audit of USAID/Afghanistan's School and Health Clinics Reconstruction Activities, Draft Audit Report dated July 14, 2006. (Report No. 5-306-06-00X-P)

We appreciate the opportunity to respond to the subject draft report. The Mission concurs with the draft report and has accordingly taken corrective action to address the recommendations as detailed below:

Recommendation No. 1. We recommend that USAID/Afghanistan make a final decision on what to do with the 13 buildings that The Louis Berger Group, Inc did not complete and take any actions necessary to carry out its decision.

USAID/Afghanistan Response: The Mission has made a final decision to cancel construction of the 13 buildings that Louis Berger Group, Inc. (LBGI) could not complete due to the critical security situation at the sites where these buildings were to be located. Attached is the action memorandum approved by the Mission Director canceling nine schools and four clinics that were part of the 105 total schools and clinics planned to be constructed by LBGI.

Recommendation No. 2. We recommend that USAID/Afghanistan immediately modify the scope of work in its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the two building not completed by the United Methodist Committee on Relief.

USAID/Afghanistan Response: In response to the recommendation, the Mission has modified its agreement with International Organization for Migration to add 50 buildings not completed by Cooperative Housing Foundation International and the two buildings (One School and One Clinic) not completed by United Methodist Committee on Relief. Please find attached Modification No.10 of Cooperative Agreement Number 306-A-00-04-00532-00 with International Organization for Migration. Please note that the 51st building incorporated in the recommendation above was also modified in a separate modification document also attached.

Based on the corrective actions outlined above, USAID/Afghanistan requests closure (final action) of Recommendations No. 1 and 2 upon issuance of the final audit report.

Finally, USAID/Afghanistan and its implementing partners are proud of achieving 91% of the planned outputs during this period of significant instability in Afghanistan. We believe this is an enviable achievement under any circumstance, but especially in a war zone with the added constraints identified by the audit team in the draft report.

Thank you.

Attachments: As stated.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig