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OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/INDONESIA'S
BANDA ACEH-LAMNO ROAD
RECONSTRUCTION
ACTIVITIES UNDER ITS
TSUNAMI RECOVERY AND
RECONSTRUCTION PROGRAM**

AUDIT REPORT NO. 5-497-06-003-P
March 30, 2006

MANILA, PHILIPPINES



USAID
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Office of Inspector General

March 30, 2006

MEMORANDUM

TO: USAID/Indonesia Director, William M. Frej

FROM: RIG/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Indonesia's Banda Aceh–Lamno Road Reconstruction Activities Under Its Tsunami Recovery and Reconstruction Program (Report No. 5-497-06-003-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 Appendix II of this report.

The report contains two recommendations intended to improve USAID/Indonesia's Banda Aceh–Lamno road reconstruction activities. Based on your comments, management decisions have been reached for both recommendations. Please coordinate final action with USAID's 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

The Regional Inspector General/Manila conducted this audit to determine whether USAID/Indonesia's Banda Aceh–Lamno road reconstruction activities were on schedule to be completed as planned and within the cost estimates (page 3). Although some road reconstruction activities were on schedule or near completion, we could not determine whether all of the road reconstruction activities were on schedule to be completed by the overall project completion date and within the overall estimated costs. This was because USAID/Indonesia did not have an approved road design or an approved implementation plan in place. Both documents were critical to evaluating whether all road reconstruction activities would be completed by the overall completion date and within estimated costs (page 4).

The audit found that the contractor implemented a number of the Banda Aceh-Lamno road reconstruction activities such as mobilization, road maintenance, road rehabilitation and removal of bridge debris (page 4). Despite this progress, as of December 7, 2005, USAID/Indonesia did not have an approved road design or an approved implementation plan in place. There were a number of reasons why these two documents were not in place, including a number of changes to the original scope of work. Because these two important documents were not in place, construction activity—the most critical activity—was delayed and the Mission could not demonstrate how it intended to complete all of the road reconstruction activities by the end of the contract and within the contract's total estimated costs (pages 5 to 7).

The audit also found that USAID/Indonesia's Cognizant Technical Officer did not fully comply with his designated responsibilities. As a result, the Mission was not properly providing oversight of the Banda Aceh-Lamno reconstruction activities, which if not corrected could impact the achievement of the reconstruction objectives (pages 7 and 8).

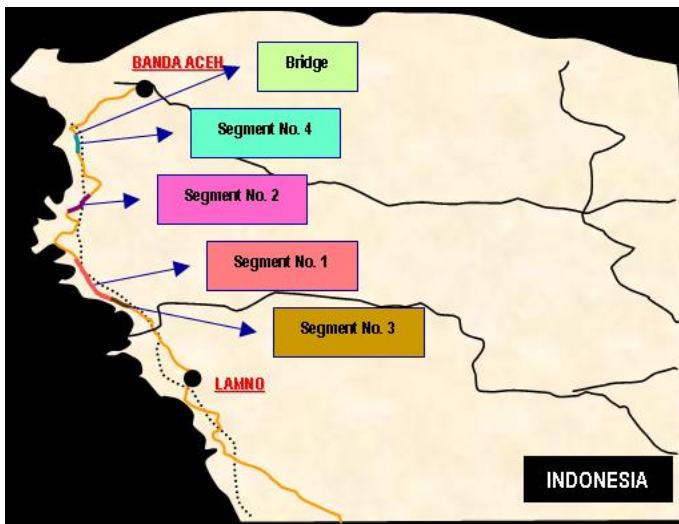
This report made two recommendations intended to improve USAID/Indonesia's Banda Aceh-Lamno road reconstruction activities (pages 7 and 8). Based on USAID/Indonesia's comments, we consider that management decisions have been reached on both recommendations (page 9). In addition, the Mission requested that we include additional facts within the report to better describe the Mission's progress made within the first three months of contract performance. We made our best effort to present a balanced, objective view of the road construction activities and revised the report accordingly. USAID/Indonesia's comments are included as Appendix II to this report (page 11).

BACKGROUND

On December 26, 2004, the largest earthquake to strike South and Southeast Asia since 1964 caused a devastating tsunami that killed several hundred thousand people. On May 11, 2005, President Bush signed into law the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005" which provided funding for a number of purposes including assisting victims of the tsunami. Of the \$656 million appropriated to USAID, about \$400 million was provided to USAID/Indonesia. In turn, USAID/Indonesia used its funding to establish its Tsunami Recovery and Reconstruction Program to assist Indonesian victims of the tsunami. As part of its program, USAID/Indonesia committed to reconstruct about 240 kilometers of road between Banda Aceh and Meulaboh.

On August 23, 2005, the Mission awarded a \$12 million contract to Wijaya Karya for road reconstruction activities along the first 80 kilometers of the 240-kilometer road, which begins in Banda Aceh and ends in Lamno. USAID/Indonesia referred to this contract as the Priority Design Build Contract. As illustrated in the map below, the contract required Wijaya Karya to (1) design and construct 20 kilometers of new road in four distinct segments, and one bridge, (2) perform other road maintenance, repair and rehabilitation work, and (3) remove bridge debris.

On November 10, 2005, the Mission awarded a \$35 million contract to Parson Global Services¹, a U.S. Architect-Engineer firm, to perform technical design reviews of and supervise Wijaya Karya's reconstruction activities.



Map showing where the four distinct segments of new road and the one bridge were to be built under the Priority Design Build Contract.

USAID/Indonesia's Office of the Aceh Reconstruction is responsible for overseeing the Priority Design Build Contract. As of November 17, 2005, the Mission had obligated about \$12 million and had disbursed \$875,000 for the contract.

¹ Included in this award were funds to design and supervise road reconstruction activities of the 160 kilometers of the road from Lamno to Meulaboh.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2006 annual audit plan to answer the following question:

- Were USAID/Indonesia's Banda Aceh-Lamno road reconstruction activities on schedule to be completed as planned and within the cost estimates?

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

AUDIT FINDINGS

Although some road reconstruction activities were on schedule or near completion, we could not determine whether all of USAID/Indonesia's Banda Aceh-Lamno road reconstruction activities were on schedule to be completed by the overall project completion date and within the overall estimated costs. This was because USAID/Indonesia did not have an approved road design or an approved implementation plan in place. Both documents were critical to evaluating whether all road reconstruction activities would be completed by the overall completion date and within estimated costs.

The Priority Design Build Contract established six road reconstruction activities to be completed by August 23, 2006, at an estimated cost of approximately \$11 million. The table below shows the financial status of the six activities as of November 17, 2005.

**Financial Status of the Banda Aceh-Lamno Road Reconstruction Activities
(As of November 17, 2005)²**

Activity	Budget (In Thousands)	Disbursements as of 11/17/2005 (In Thousands)	Percent of Budget Disbursed as of 11/17/2005
1. Mobilization/Demobilization	\$ 22	\$ 9	42
2. Road Design	301	111	37
3. Road Maintenance	202	51	25
4. Road Repair/Rehabilitation	664	362	54
5. Removal of Bridge Debris	88	50	57
6. Construction	9,950	-	-
Subtotals	11,227	583	5
Non-Road Reconstruction Activities (Administration & Fixed Fees)	878	292	33
Totals	\$ 12,105	\$ 875	7

Through, interviews and documentation reviews, we confirmed that Wijaya Karya had mobilized, and that it was performing road maintenance, conducting road repair/rehabilitation, and removing bridge debris. Furthermore, through site visits we observed that Wijaya Karya had cleared all debris and opened the 80 kilometer stretch of road from Banda Aceh to Lamno including bridges. The contractor was successful in clearing bridge debris and maintaining the newly opened road. Because this is the only major road down the west coastline, rehabilitating this transportation link was critical to support other tsunami reconstruction activities taking place down the road corridor.

² The amounts in this table were not audited.



OIG photograph showing all debris had been removed from a bridge that was destroyed by the tsunami. Remnants of the bridge can be seen on each bank just left of the new temporary bridge. (Aceh Province, Indonesia, November 2005)

Despite progress in the above-mentioned areas, road construction was delayed and USAID/Indonesia could not demonstrate how it intended to complete all of the road reconstruction activities by August 23, 2006, and within the estimated costs because it did not have an approved road design or an approved implementation plan in place. In addition, the USAID/Indonesia Cognizant Technical Officer overseeing the contract with Wijaya Karya did not fully comply with his designated responsibilities. These issues are discussed below.

Road Construction Delayed

The Priority Design Build Contract set a due date of October 2005 for a road design and a due date of Sept. 23, 2005, for an implementation plan. However, as of December 7, 2005, USAID/Indonesia did not have an approved road design or an approved implementation plan in place. There were a number of reasons why these two documents were not in place, including a number of changes to the original scope of work. Because these two important documents were not in place, construction activity—the most critical activity—was delayed and the Mission could not demonstrate how it intended to complete all of the road reconstruction activities by the end of the contract and within the contract’s total estimated costs.

No Approved Road Design – The Priority Design Build Contract required Wijaya Karya to design and construct four segments of road totaling about 20 kilometers and one bridge between Banda Aceh and Lamno. As stated in the contract, the contractor was to have a completed a road design for Segment No. 1 (about 11 kilometers, see map on page 2) by October 2005 and start construction immediately thereafter. The contractor did not meet the contract target date. It was not until late November 2005 that the contractor submitted a road design for Segment No. 1; the submitted design was only for 6 of the 11 kilometers. Further, as of December 7, 2005, the Mission had not approved the contractor’s design for Segment No. 1. As a result, the contractor could not start road construction.

There were four major reasons why a road design was not in place by October 2005.

- The Mission, the Government of Indonesia, and the contractor did not reach agreement on the final road alignment (road route) until September 27, 2005—one month prior to the due date for a completed road design.
- The Mission was considering changing the original statement of work—from constructing four distinct segments of road totaling about 20 kilometers to constructing one continuous 11-kilometer road consisting of Segment Nos. 1 and 3. This revised plan also deleted the one bridge.
- The Mission requested the contractor to modify its road design plan at least four times because the contractor's cost estimates for the road construction exceeded the approximately \$10 million that was available for that work.
- The Mission did not award the Architect-Engineer contract to Parson Global Services until November 2005—a contract that was to have been awarded in July 2005. Under its contract, Parson Global Services is responsible for performing technical reviews of the road designs prepared by Wijaya Karya. According to a Wijaya Karya official, the technical reviews would have helped to expedite the design phase.



OIG photograph of a section of the Banda Aceh-Lamno road where the original road was destroyed by the tsunami and a temporary dirt road was put in its place. (Aceh Province, Indonesia, November 2005)

No Approved Implementation Plan – According to its contract, Wijaya Karya was required to submit an implementation plan by September 23, 2005, (30 days after the contract was awarded). The contract also required the Mission to approve the plan. The contractor submitted the implementation plan in October 2005; however, as of December 7, 2005, the Mission had not approved it.

The purpose of the implementation plan was to assure, to the maximum extent possible, the necessary performance and input for all parties to complete the road reconstruction activities on time and within budget. The implementation plan was to include:

- A determination of the sequence of work to be initiated, including identifying long

lead items and determining how the contract schedule could be achieved.

- A schedule illustrating the completion of the project within the specified time frame.

According to Mission officials, they had not approved the implementation plan because it did not comply with certain U.S. government requirements, and because the Mission was considering a new scope of work for the contract.

Without an approved road design and implementation plan in place, construction activity—the most critical activity—was delayed and the Mission could not demonstrate how it intended to complete all of the road reconstruction activities by the end of the contract and within the contract's total estimated costs. Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Indonesia develop and implement an action plan with due dates to have an approved road design and implementation plan in place so that construction can begin and be completed by August 23, 2006.

Other Factors – According to Mission and Wijaya Karya officials, two other factors could potentially impact the completion of the Banda Aceh-Lamno road reconstruction activities: land acquisition and weather. First, the Government of Indonesia is responsible for acquiring the right-of-way for the road from private land owners. The land-acquisition process could be time consuming and there is no guarantee that the Government of Indonesia would be able to complete the process quickly. Second, the rainy season from November to February could cause flooding and make the road inaccessible. As a result, road construction would be more difficult and more equipment might be needed to mobilize construction—a factor that could impact construction costs.

Contract Administration Needs Improvement

Contrary to USAID policy, the CTO's Designation Letter, and the contractual requirements stated in the Mission's contract with Wijaya Karya, the CTO did not fully comply with his designated responsibilities. For example, during the field work we identified the following responsibilities that the CTO did properly oversee as part of his management responsibilities for the contract.

- Review contractor-submitted invoices for accuracy.
- Provide administrative support to the contractor.
- Maintain CTO work files, including documenting site visits.
- Monitor contract reporting requirements.

For example, the CTO did not help the contractor secure tax-free status for the purchase of construction equipment and materials, even though the contractor specifically asked for such assistance. As another example, the CTO did not ensure that the contractor submitted monthly progress reports required by the contract. Lastly, the CTO did not maintain a work file and did not document any monitoring trips to Banda Aceh. The CTO cited a lack of oversight on his part for not fulfilling his responsibilities.

These responsibilities were critical to the oversight and management of the Priority Design Build Contract. Incomplete oversight in these areas could result in:

- The Mission reporting inaccurate financial data or overpaying the contractor.
- The contractor incurring additional tax costs when purchasing equipment or materials.
- The CTO's successor having difficulty in properly administering the contract.
- The Mission not taking prompt remedial action to address performance issues that could prevent the timely completion of the project.

The CTO plays an important role in managing both the technical and administrative aspects of the Priority Design Build Contract. Consequently, we are making the following recommendation to ensure that USAID/Indonesia fully manages the contract to help ensure that the contract achieves its objectives.

Recommendation No. 2: We recommend that USAID/Indonesia develop and implement procedures to periodically verify that the Cognizant Technical Officer is fully complying with his designated responsibilities, including (1) adequately reviewing contractor invoices for accuracy, (2) providing full administrative support to the contractor, (3) maintaining complete Cognizant Technical Officer work files, and (4) monitoring the contractor's compliance with reporting requirements.

EVALUATION OF MANAGEMENT COMMENTS

In response to the draft report, USAID/Indonesia accepted the report's two recommendations. The Mission's comments and our evaluation of those comments are summarized below.

As a general comment, USAID/Indonesia stated that the draft report did not adequately highlight that major road reconstruction activities were accomplished during the initial three months of the Priority Design Build Contract. The Mission requested that we include additional facts in the report to better describe the progress made during that period. We made our best effort to present a balanced, objective view of the road reconstruction activities and revised the report accordingly.

For Recommendation No. 1, USAID/Indonesia described six actions it had taken that it believed would result in road construction being completed within the budget and time frame of the Priority Design Build Contract. The actions taken included (1) modifying the contract's scope of work to initiate and complete construction of 8.2 kilometers of road, (2) approving a final design for one segment and a preliminary design for another segment of the 8.2-kilometer road, and (3) approving the contractor's work plan and construction schedule. Based on the actions the Mission's stated it had taken, we consider that a management decision has been reached for Recommendation No. 1.

For Recommendation No. 2, USAID/Indonesia described seven actions it had taken to support and monitor the Cognizant Technical Officer (CTO). The actions taken included (1) assigning engineers to review all contractor invoices for accuracy, (2) providing administrative support to improve the contractor's financial reporting, accounting and invoicing, (3) issuing a letter to support the contractor's tax-free status, and (4) adding additional engineers to its road team to, among other duties, help maintain work files, document site visits, and monitor contract reporting requirements. We had recommended that the Mission develop and implement procedures to periodically verify that the CTO was fully complying with his designated responsibilities. The Mission did not specifically address such procedures; however, its actions should have the same intended effect of improving its administration of the Priority Design Build Contract. Therefore, based on the actions the Mission stated it had taken, we consider that a management decision has been reached for Recommendation No. 2.

USAID/Indonesia will need to coordinate final actions on both recommendations with USAID's Audit Performance and Compliance Division (M/CFO/APC).

USAID/Indonesia's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards. The audit was designed to determine whether USAID/Indonesia's Banda Aceh-Lamno road reconstruction activities were on schedule to be completed as planned and within the cost estimates.

The audit covered the Banda Aceh-Lamno road reconstruction activities implemented by Wijaya Karya under the Mission's Tsunami Recovery and Reconstruction Program during the period from August 23 through November 18, 2005. As of November 17, 2005, USAID/Indonesia had obligated funding of about \$12 million and had disbursed \$875,000 in payments for the road reconstruction activities.

As part of the audit, we assessed the Mission's significant internal controls over the Banda Aceh-Lamno road reconstruction activities. The assessment included controls related to whether the Mission (1) conducted and documented site visits, (2) required and approved a contract implementation plan, (3) required and reviewed contractor progress reports, and (4) reviewed contractor invoices and supporting documentation. We also reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2005 for those internal controls related to the audit objective.

We conducted the audit at USAID/Indonesia in Jakarta, Indonesia from November 21 to December 7, 2005. We also visited reconstruction activities along the Banda Aceh-Lamno road.

Methodology

To answer the audit objective, we interviewed responsible officials and staff from the Mission, the U.S. Army Corps of Engineers, the Priority Design Build contractor, and the Architect-Engineer contractor. We also reviewed:

- Documentation such as, but not limited to, accounting information, site visit reports, daily monitoring reports, prior audit reports, and appropriate correspondence.
- Applicable contracts.
- Applicable USAID policy and guidance related to the audit objective.

Since we could not determine whether all of USAID/Indonesia's Banda Aceh-Lamno road reconstruction activities were on schedule to be completed by the overall project completion date and within the overall estimated costs, we did not establish a materiality threshold for this audit.

MANAGEMENT COMMENTS



USAID
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INDONESIA

March 27, 2006

MEMORANDUM

TO: Catherine Trujillo, Inspector General, RIG/Manila

FROM: Linda Tarpeh-Doe, Controller, USAID/Indonesia /s/

SUBJECT: Draft report on the Audit of USAID/Indonesia's Banda Aceh - Lamno Road Reconstruction Activities Under its Tsunami Recovery and Reconstruction Program
Audit Report No. 5-497-06-00X-P

As requested in your March 6 E-mail message following are the Mission's comments and suggested changes to the draft audit report. We would like the auditors to consider incorporating these comments into the final report to provide more actual facts and balance to the report content.

The RIG audit focused on the first three months, August 23 – November 17, 2005, of the design-build contract between USAID and P.T. Wijaya Karya (WIKA). This total contract incorporates a 12 month time frame to complete all its requirements. The report did not adequately highlight that major road reconstruction activities were accomplished during this initial three month period per the requirements of the contract. Within the first two months of the contract, WIKA had cleared all debris and opened the 80 kilometer

stretch of road from Banda Aceh to Lamno including bridges. Because this is the only major road down the west coastline, rehabilitating this transportation link was critical to support other tsunami reconstruction activities taking place down the road corridor. The contractor was successful in clearing bridge debris, completing road repair and maintaining the newly opened road reducing travel time between Banda Aceh and Lamno by half. The firm also created local jobs, and sixty-five percent of the road construction employees were Acehnese. The financial status report shows that most of the disbursements went to mobilization, road maintenance, road repair/rehabilitation and removal of bridge debris as expected in the first three months of implementation. The draft audit report does not reflect that the road reconstruction work estimated to be completed within the first three months of the contract was in fact completed expeditiously within the budget allocated to the contract.

Recommendation No. 1: *We recommend that USAID/Indonesia develop and implement an action plan with due dates to have an approved road design and implementation plan in place so that construction can begin and be completed by August 23, 2006.*

Response: Road design for the new construction was started by WIKA during the first three months of the contract as indicated in the financial status table in the report, but a final design was not approved by USAID during the first three months of the contract. USAID/Indonesia developed a number of action steps to expedite the approval of the design and commencement of construction. These actions will result in road construction being completed within the budget and time frame of the contract.

Action 1: USAID approved a revised technical scope of work for the WIKA contract with recommendations from Parsons Global Services on 1/27/06 and 2/14/06. Due to the critical nature of the construction work under the priority contract, the WIKA scope of work was changed to begin construction along two difficult segments of road instead of four as originally planned. These two sections of road were determined to require high maintenance to stay passable and therefore were chosen over other segments of road to be constructed under the WIKA contract.

Action 2 : USAID/Indonesia has amended the contract with PT. Wijaya Karya (Modification # 1 & # 2, dated 3/15/06 and 3/27/06) to revise the scope of work to initiate and complete construction of a total of 8.2 kilometers of road (instead of 20 Kilometers). Under Modification #1, WIKA is to complete the design and construction of a 5.2 kilometer road segment (Section 1A, Lhoong to Pudeng, Kilometer 54.7 to Kilometer 60) to be completed by August 23, 2006. This modification also confirms that WIKA will not provide any further design services other than Section 1A. All other design activities will be completed by Parsons Global Services Inc., the A&E contractor, as part of their overall road design services. This contract modification also includes centerline and right-of-way (ROW) staking and land mapping within the ROW to provide initial land ownership information to facilitate land acquisition by the Government of Indonesia. Under Modification #2, WIKA is to construct an approximately 3-kilometer road section between Kilometer 15 to Kilometer 18 from Banda Aceh, which includes the construction of the 80 meter span Raba River Bridge to be completed by August 23, 2006. The proposed construction activities under the above modifications are expected to be completed within the “plug figure” budget for construction currently under the WIKA contract and by August 23, 2006, during the period of the contract.

Action 3: Parsons and USAID approved the design on 03/23/06 of the 5.2 kilometers of road to be constructed by WIKA. A preliminary design has been approved for the 3-kilometer segment.

Action 4: Contract reimbursement terms were changed to “fixed unit cost” instead of “fixed price”. This will allow the construction related activities to move forward (e.g. clearing and grubbing, excavation) with preliminary design after the land acquisition negotiation is complete. This will help meet the construction schedule.

Action 5: Parsons has mobilized a quantity surveyor in Aceh to supervise WIKA’s construction work. Parsons will ensure that the quality and quantities of materials used for construction are within the contract standards and cost projections.

Action 6: WIKA’s work plan and construction schedule was

approved on 3/23/06.

Issues-land acquisition and right of way: A Technical Steering Committee was formed on 1/4/06 to facilitate decisions related to the road construction, including land acquisition. Key Government of Indonesia decision makers in regards to land acquisition and procurement are members of the committee. In addition, WIKA has engaged in meetings with Government of Indonesia officials and community leaders to identify potential land acquisition issues so these can be preempted through changes to the road design.

Adverse Weather: The rainfall in Aceh is expected to be low during the period April – August when the construction will take place.

Mission Recommendation:

Based on the actions undertaken, we recommend RIG/A/Manila determine that a mission management decision has been reached upon the issuance of this audit report recommendation. A closure request will be submitted to the Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC) with supporting documents to substantiate the request.

Recommendation No. 2: *We recommend that USAID/Indonesia develop and implement procedures to periodically verify that the Cognizant Technical Officer is fully complying with his designated responsibilities, including (1) adequately reviewing contractor invoices for accuracy, (2) providing full administrative support to the contractor, (3) maintaining complete Cognizant Technical Officer work files, and (4) monitoring the contractor's compliance with reporting requirements.*

Response: USAID/Indonesia has taken the following actions to support and monitor the CTO:

- USAID has placed a US Army Corps Road Construction Engineer in Aceh. His work includes verifying accuracy of the Contractor's invoices and overseeing the quality of the construction work. In addition, the A&E contractor, Parsons, has been mobilized in Aceh to conduct construction supervision

- of WIKA's effort. Another Senior FSN Engineer with road construction experience was transferred to the road project team as of 1/16/06 to support the CTO for WIKA.
- The USAID Financial Management Office is interfacing with WIKA directly to improve their financial reporting, accounting and invoicing process. All invoices are being reviewed by two USAID FSN engineers for accuracy.
 - Trip reports are required by each team member for documentation. Meeting minutes are prepared by the contractors.
 - Monthly progress reports are being submitted by WIKA regularly as per dates specified in the contract.
 - The mission has also allocated additional administrative support to help improve the content of the files.

Other Comments:

- Page 7, USAID issued a letter on February 21, 2006 to support tax free status of WIKA. The contractor never requested for duty free facilities. WIKA did not request duty free facilities because they do not plan to import any items from a foreign country. Under current activities, WIKA has primarily purchased gravel and soil locally.
- Page 7, USAID/Indonesia strengthened the Road Team by adding one FSN Road Engineer in Jakarta and in the process of adding a USPSC and FSN Senior Engineer in Aceh. These additional staff will provide support to maintain work files, document site visits, and monitor contract reporting requirements.

In summary, the mission accepts the two recommendations reported by the RIG/Manila audit team. We thank you for the opportunity to allow the mission to provide comments on the draft audit report.

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