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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/SRI LANKA'S TSUNAMI RECOVERY AND RECONSTRUCTION PROGRAM SELECTED OUTPUTS IMPLEMENTED BY DEVELOPMENT ALTERNATIVES, INC.

AUDIT REPORT NO. 5-383-07-007-P

June 22, 2007

MANILA, PHILIPPINES



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Office of Inspector General

June 22, 2007

MEMORANDUM

TO: USAID/Sri Lanka Director, Rebecca W. Cohn

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

SUBJECT: Audit of USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program
Selected Outputs Implemented by Development Alternatives, Inc.
(Audit Report No. 5-383-07-007-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 one recommendation to improve USAID/Sri Lanka's tsunami recovery and reconstruction program activities. Based on your comments and action taken, 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 selected outputs implemented under USAID/Sri Lanka's tsunami recovery and reconstruction program (TRRP) by Development Alternatives, Inc. were being achieved. (See page 2.)

Selected outputs¹ implemented under USAID/Sri Lanka's tsunami recovery and reconstruction program by Development Alternatives, Inc. (DAI) were generally being achieved. Specifically, as of the audit cutoff date of February 12, 2007, 106 of 114 planned outputs reviewed were achieved or on schedule to be achieved. Six of the remaining eight outputs did not meet their targets due to security issues, overestimation of target, and differing community attitudes. The last two outputs were not achieved because the grantee did not perform in accordance with the terms of the grant agreement. (See page 3.)

The activities were implemented under the \$20 million tsunami supplemental fund, and focused on:

- rebuilding infrastructure small-scale: community impact program - \$13 million;
- transition from camps to communities: livelihoods economic recovery program- \$5 million; and
- technical assistance/good governance: information dissemination - \$2 million. (See page 3.)

Although the Mission's tsunami recovery and reconstruction program activities achieved or were achieving 93 percent of planned outputs, one grantee did not perform in accordance with the terms of the grant agreement impacting the achievement of the selected outputs. Specifically, during the grant's original performance period of almost eight months, the plan to repair and improve seven roads with a total of five kilometers was not achieved. In addition, DAI amended the grant to decrease the number of roads and kilometers to repair and improve from seven roads with a total of five kilometers down to three roads with a total of approximately 2.3 kilometers, and increased the estimated grant amount from \$120,706 to \$230,210. As a result, the TRRP's goal of linking four villages with tsunami-affected Tamil and Muslim residents was not achieved on schedule. (See pages 8 - 10.)

This report makes one recommendation proposing that USAID/Sri Lanka management reevaluate the aforementioned grant and to make a determination whether to allow Development Alternatives, Inc. to continue with the planned activities or to put USAID funds to better use. (See page 10.) Based on our evaluation of the Mission's comments and action taken, we considered that final action has been taken on the recommendation. (See page 11.)

¹ USAID's Automated Directives System defines output as a tangible, immediate, and intended product or consequence of an activity within USAID's control or that of its contractors or grantees.

BACKGROUND

On December 26, 2004, the largest earthquake to strike in South and Southeast Asia since 1964 caused a devastating tsunami that killed over 150,000 people and displaced hundreds of thousands more. Communities, roads, and other infrastructure were destroyed or completely washed away. Of the affected countries, Sri Lanka was hit second hardest, after Indonesia.

On May 11, 2005, the U.S. President signed the “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005” which provided emergency supplemental fiscal year 2005 appropriation funding for a number of purposes including assisting victims of the December 2004 tsunami. The Act appropriated \$656 million to USAID, which, in turn, provided USAID/Sri Lanka approximately \$134 million for its overall Tsunami Recovery and Reconstruction Program.

On June 6, 2005, USAID modified an existing \$14 million contract that it awarded to Development Alternatives, Inc. (DAI) to increase it by \$31 million, bringing the estimated total cost of the contract to \$45 million, in anticipation of the tsunami supplemental funding. Then, on July 28, 2005, USAID modified the contract by obligating approximately \$20 million in tsunami supplemental funds. The contract’s period of performance is scheduled to end on March 31, 2008. Up through March 2007, the Office of Transition Initiatives (OTI) at USAID/Sri Lanka was responsible for managing the TRRP activities. These activities aim to empower community groups by building their capacity and capability to determine, plan, implement and manage the rehabilitation of their communities effectively and efficiently. DAI facilitated participatory planning by community groups so that they could identify and prioritize their needs. DAI also provided subgrants to community groups and local governments for small infrastructure rebuilding and rehabilitation.

As of February 12, 2007, OTI records showed that of the \$20 million tsunami supplemental fund, \$12.3 million² had been committed for grants and \$3.2 million had been disbursed. On March 15, 2007, OTI officially handed over the management of the DAI contract, and with it the TRRP, to USAID/Sri Lanka, Office of Humanitarian Assistance and Transition Initiatives.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2007 audit plan to answer the following question:

- Were selected outputs implemented under USAID/Sri Lanka’s Tsunami Recovery and Reconstruction Program by Development Alternatives, Inc. being achieved?

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

² This amount does not include DAI’s operations costs.

AUDIT FINDINGS

Were selected outputs implemented under USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program by Development Alternatives, Inc. being achieved?

Selected outputs implemented under USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program (TRRP) by Development Alternatives, Inc. (DAI) were generally being achieved. Specifically, as of February 12, 2007, the audit cutoff date, 106 of 114 planned outputs reviewed were either achieved or on schedule to be achieved. Six of the remaining eight outputs did not meet their targets due to security issues, overestimation of target, and differing community attitudes. The last two outputs were not achieved and are discussed in detail on page 8 of this report.

DAI implemented the activities under the \$20 million tsunami supplemental fund by awarding grants to local governments and nongovernmental organizations. The activities focused on:

- rebuilding infrastructure small-scale: community impact grant program - \$13 million;
- transition from camps to communities: livelihoods economic recovery program - \$5 million; and
- technical assistance/good governance: information dissemination - \$2 million.

At the time of the audit fieldwork, DAI had awarded 172 grants with a combined committed amount totaling \$12.3 million. Of the 172 grants, we randomly selected for further review, 63 grants with a combined committed amount of \$9.2 million. These 63 grants collectively supported each of the major activities under the Tsunami Recovery and Reconstruction Program. Contained within the grant agreements were specific outputs or deliverables/products. Table 1 on the following page summarizes the status for each of the 114 planned outputs reviewed under the 63 grants.

Table 1: Planned Outputs by Activity, Status, and Results of Review

| Activity | Grant Status ³ | No. of Planned Outputs | Results of Review | | |
|---------------------------------------|---------------------------|------------------------|-------------------------|-----------------|---------------------|
| | | | Ongoing and On Schedule | Output Achieved | Output Not Achieved |
| Rebuilding infrastructure small-scale | Cleared | 58 | 56 | 0 | 2 ⁴ |
| | Completed | 2 | 0 | 2 | 0 |
| | Closed | 5 | 0 | 4 | 1 |
| Transition from camps to communities | Cleared | 25 | 25 | 0 | 0 |
| | Completed | 1 | 0 | 1 | 0 |
| | Closed | 4 | 0 | 4 | 0 |
| Technical assistance/good governance | Cleared | 11 | 11 | 0 | 0 |
| | Completed | 5 | 0 | 1 | 4 |
| | Closed | 3 | 0 | 2 | 1 |
| Totals: | | 114 | 92 | 14 | 8 |

To monitor the activities, the Mission developed and implemented a monitoring system that included:

- Designating the Office of Transition Initiatives' (OTI) Country Representative to manage the Development Alternatives, Inc. (DAI) contract.
- Hiring a monitoring and evaluation specialist who monitored and evaluated grants' activities.
- Holding periodic meetings with officials from DAI and the Tsunami Recovery and Reconstruction Program (TRRP) team.
- Requiring DAI to submit quarterly progress reports.
- Conducting field visits to activity sites and documenting the visits in trip reports.
- Using feedback from U.S. Embassy officials, grantees, and beneficiaries of the program.

³ Cleared grants are those grants whose activities are ongoing. Completed grants are those whose activities are finished and outputs are either achieved or not achieved, at which point a range of administrative tasks associated with grant closeout begin. Closed grants are those whose activities are finished, outputs are either achieved or not achieved, and administrative tasks are completed.

⁴ These two outputs that were not achieved came from a grant that was incorrectly classified as a cleared grant in OTI's database when in fact the grant's performance period ended in December 2006.

- Attending opening ceremonies of completed projects to verify the equipment supplied and check the work performed.
- Issuing a mission order requiring the cognizant technical officer for the program to submit periodic progress reports.
- Performing portfolio reviews.

As part of the TRRP audit, the audit team and officials from the Mission and DAI traveled to the southern part of Sri Lanka to visit project sites where the activities were either completed or ongoing. The following activities highlight some of the accomplishments of the TRRP funded under the \$20 million tsunami supplemental fund.

Renovation and Re-equipping of Schools in Tsunami-affected Areas of Hambantota – DAI awarded two grants with a combined grant amount of \$343,207 to implement activities supporting the renovation and re-equipping of ten schools that were used to house tsunami-displaced persons in the Hambantota district. These school buildings were overused as temporary shelters by the tsunami-displaced persons during their stay, thus making the classrooms not conducive to learning. Also, the sanitary conditions of these schools deteriorated after being used as temporary shelters. The grantee, the Zonal Education Department in Hambantota, completed the renovation and re-equipping activities in February 2007. According to the grantee, the renovation and re-equipping activities will help reactivate the educational activities and improve the services given to the tsunami-affected students.



OIG photograph of the renovated Bundala secondary school, one of ten schools in Hambantota that benefited from the tsunami supplemental funding. Also shown in the photograph are the students from the school and DAI's regional program manager. (Hambantota, Sri Lanka, March 2007)



OIG photograph of students from Bundala secondary school using a computer donated by USAID under the \$20 million tsunami supplemental fund being implemented by DAI. (Hambantota, Sri Lanka, March 2007)

Provision of Equipment to Karapitya Teaching Hospital –The Galle district was severely hit by the tsunami and, during the disaster, the Karapitya Hospital had limited ability to respond to the emergency as it had no emergency care department. Through a grant using the tsunami supplemental fund, DAI awarded \$225,118 to the Karapitya Teaching Hospital Development Society to supply the hospital with emergency-related equipment in order to increase its capability to provide appropriate care for urgent and time-critical patients seeking treatment for trauma and emergencies. Additionally, the grant covered training on cardiopulmonary resuscitation procedures, immediate first aid response, and basic life-saving skills and techniques. According to the grantee, the hospital will now be able to provide an effective response capacity to manage disaster and mass casualty situations.



OIG photograph of a patient admitted to the emergency trauma unit at the Karapitya Hospital. All the medical equipment shown in the photograph was funded under the \$20 million tsunami supplemental fund. (Galle, Sri Lanka, March 2007)



OIG photograph of a doctor at the Karapitya Hospital teaching cardiopulmonary resuscitation procedures using a trauma mannequin donated by USAID under the tsunami supplemental fund. (Galle, Sri Lanka, March 2007)

Re-establishing the Local Economy Through Activation of Harbor – DAI awarded a \$234,163 grant to the Ceylon Fisheries Harbor Cooperation to support the repair of some machinery damaged by the tsunami in order to complete the dredging of the Kirinda fisheries harbor and bring the harbor back to its full, pre-tsunami operation. Kirinda fisheries harbor is one of two harbors in the Hambantota district that provides harboring facilities for about 120 fishing vessels and more than 200 small boats. Normal pre-tsunami dredging activities were stopped after the tsunami due to damage to the dredging equipment. Since then no dredging took place in Kirinda resulting in complete closure of the harbor mouth and cessation of operation. This brought the fisheries-related economy of Kirinda to a standstill, putting the majority of the population in a desperate situation without any permanent source of income. The completion of the project, according to the grantee, will revitalize the economy of thousands of people who depend on fisheries or related activities as their main source of income.



OIG photograph of the USAID-funded sand-conveying pipes attached to the dredging machine and used in dredging sand from the mouth of the Kirinda harbor. (Hambantota, Sri Lanka, March 2007)



OIG photograph of the nozzle of the sand-conveying pipe spewing sand dredged from the mouth of the Kirinda harbor. (Hambantota, Sri Lanka, March 2007)

Livelihood Support Through Market Improvement – DAI awarded a grant, which at the time of the audit fieldwork had an estimated amount of \$183,359, to the Municipal Council of Matara for the reconstruction of the Kotuwagoda market. The market was completely washed away by the tsunami in 2004, thus affecting more than 300 vendors and suppliers, who lost lives and assets in the disaster. After the tsunami, the economic development of Matara boomed when both government and nongovernmental organizations started new construction and other interventions in the district. When completed, according to the grantee, the market will support the local economy tremendously and improve the services for the general public.



OIG photograph of the Kotuwagoda market under construction with the stalls clearly demarcated by concrete slabs. The construction of the market is funded by USAID under the tsunami supplemental fund. (Matara, Sri Lanka, March 2007)

Although the Mission achieved or was achieving approximately 93 percent of the TRRP's selected planned outputs, an issue relating to a grantee that did not perform in accordance with the terms of the grant agreement and the resulting consequences needs to be addressed.

Grantee Did Not Perform in Accordance With the Terms of the Grant Agreement

Summary: Contrary to the terms of the grant that commitments assumed by the grantee and the fulfillment of program objectives would be completed by the end date of the grant, the grantee did not finish the repair and improvement of seven roads with a total of five kilometers in the almost eight months that the grant was in effect. This occurred because the grantee did not take full responsibility for the implementation of the grant's activities. As a result, the overall objective under this program, to bring together Tamil and Muslim residents from four villages through the renovation of gravel roads, was not achieved. Furthermore, it is questionable if the prime implementer made a sound business decision by amending the subject grant that resulted in doubling the initial costs for completion of half of the original intended number of roads to be repaired and improved.

In support of rebuilding infrastructure small-scale activities, DAI awarded grant number DAIC518 to a local non-governmental organization (NGO) with start and completion dates of May 15, 2006, and December 31, 2006, respectively. The main objective of the grant was to bring together the tsunami-affected Tamil and Muslim residents from four villages by linking the villages through the renovation of short gravel roads. The grantee was expected to repair and improve seven roads with a total of five kilometers. Additionally, the grant agreement tasked the grantee with full responsibility for the conduct of the project or activity supported under the grant agreement and for adherence to the conditions of the grant agreement. Although the grantee was encouraged to ask DAI for advice and opinion on problems that may arise, the grantee was still responsible for making sound technical and administrative judgments in implementing the activities.

As of the grant's end date of December 31, 2006, the grantee had not completed the road project. From May to December 2006, the grantee completed other non-infrastructure tasks of the grant such as conducting community consultations to share, design, and plan implementation of projects and training of trainers in the area of management, conflict mitigation and peace building. But, the road project remained unfinished.

The underlying reason why the grantee had not completed the road project by the end date of the grant was because the grantee did not take full responsibility for the implementation of the project. It relied on DAI and its construction management consultant, Neo Engineering and Technological Solutions (NEAT Solutions), to make all the decisions in addressing the problem associated with the project as further described below. Despite the problem identified, the grantee did not take timely appropriate actions to ensure completion of the roads by the original completion date of December 31, 2006.

At the time the grantee submitted the original road design, DAI did not have an engineering firm as a subcontractor to review the design. In this regard, DAI used its own engineering consultant to review plans and inspect TRRP-funded infrastructure work to ensure that planned and ongoing interventions were appropriate and viable, and to help select an engineering firm to be subcontracted. According to DAI's engineering consultant, the grantee's original design for the roads to be repaired did not include drainage structures, which, a DAI official explained, is the core component of road construction, especially in the tropics. Water needs to travel across the road and off the road. Without these drainage structures, the road surface will be undermined and eventually fail. The absence of drainage structures in the original plan was noted by DAI's engineering consultant as early as May/June 2006 and disclosed in his report to USAID on June 20, 2006. DAI's newly subcontracted engineering and construction management consultant, NEAT Solutions, was at the project site by July 14, 2006, and immediately informed the grantee of the situation. On August 29, 2006, DAI requested OTI to approve the inclusion of the drainage structures in the plan, and NEAT Solutions to revalidate the project.

However, it was not until around the middle of December 2006, when NEAT Solutions informed DAI about anticipated delays in getting the final bill of quantities for the road renovations due to security tension and heavy rainfall that impeded fieldwork. As a result, DAI was not able to get the technical information prior to the grant end date. Hence, at the time of the grant's original end date of December 31, 2006, DAI was undecided whether to close the grant without the roads completed or to extend the grant with a revised budget and work plan.

Consequently, on February 26, 2007, or approximately two months after the grant's performance period had ended, the cognizant technical officer for the TRRP approved the revision of the grant. This revision resulted in the (1) extension of the grant's performance period from December 31, 2006, to August 31, 2007; (2) decrease in the number of roads and kilometers to repair and improve from seven roads with a total of five kilometers down to three roads with a total of approximately 2.3 kilometers; and (3) increase in the estimated grant amount from \$120,706 to \$230,210. As well, the TRRP's goal of linking four villages with tsunami-affected Tamil and Muslim residents was not achieved on schedule.

Notwithstanding that the grant's period of performance was extended until August 31, 2007, it is questionable if the decision to modify the grant awarded under the infrastructure supplemental fund will result in meeting the overall objective of the grant given the significant reduction in the number of roads and kilometers to be repaired. Furthermore, given that the estimated costs for this agreement almost doubled from the initial estimate, it is questionable if the Mission is making the most efficient use of these funds. As a result we recommend the following:

Recommendation No. 1: We recommend that USAID/Sri Lanka reevaluate grant number DAIC518 and make a determination whether to allow Development Alternatives, Inc. to continue with the planned activities or to put USAID funds to better use.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Sri Lanka agreed with the overall results of the audit. However, the Mission did not agree with the draft recommendation included within our draft report which recommended for USAID/Sri Lanka to require Development Alternatives, Inc. to cancel grant number DAIC518 and to put the grant's remaining USAID funds to better use.

Furthermore, the Mission provided additional explanation on the ramifications of such a recommendation as well explained in detail its rationale for deciding to continue with this program despite the reduction in the scope of work.

Based on the Mission's comments, we revised the recommendation in the final report to allow for more flexibility in how the Mission proceeds with the management of this activity. Based on our evaluation of the Mission's comments and action taken, we conclude that it has taken appropriate action in managing the activities under this grant. Therefore, we consider that final action has been taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards to determine whether selected outputs implemented under USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program (TRRP) by Development Alternatives, Inc. were being achieved.

The audit covered selected planned outputs funded under TRRP's \$20 million tsunami supplemental fund, as contained in the Office of Transition Initiatives (OTI) grants database as of the defined audit cut-off date of February 12, 2007. As of that date, OTI records showed that \$12.3 million had been committed and \$3.2 million had been disbursed. The audit fieldwork was conducted from February 21 to March 16, 2007 at the offices of USAID/Sri Lanka and Development Alternatives, Inc. in Colombo, Sri Lanka. Furthermore, project site visits were conducted in Galle, Hambantota, and Matara, Sri Lanka.

In planning and performing the audit, we reviewed and assessed the significant internal controls developed and implemented by USAID/Sri Lanka and OTI to manage and monitor the TRRP. The assessment included controls related to whether the Mission (1) conducted and documented project site visits to evaluate progress and monitor quality; (2) reviewed progress and monitoring reports submitted by the implementing partner; (3) maintained a database on the status of the activities; and (4) held periodic meetings with the implementing partner and the TRRP team. We also reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2006 for any issues related to the audit objective.

As of February 12, 2007, DAI had awarded 172 grants under the \$20 million tsunami supplemental fund and OTI maintained the grants' data within its database system. We judgmentally selected 122 grants to test the database's accuracy and completeness.

Methodology

To answer the audit objective, we statistically selected 62 of the 172 grants for review. We used an error rate of five percent and variations allowed were plus or minus four percent, with a confidence level of 95 percent. Since each grant had a different number of planned outputs, we judgmentally selected outputs based on their relevance to the grant's primary objective. This resulted in the selection of 114 outputs for review. We then reviewed documents such as grant clearance forms, grant notes, timeline schedules, progress reports, and monitoring and evaluation reports relevant to the 114 outputs to determine their existence, status, and timely completion. As well, we checked for photographic evidence that the outputs existed since we could visit only a limited number of project sites. In addition, we talked about or discussed via e-mail the status of the outputs with officials from OTI and the implementing partner.

We established the following materiality thresholds to answer the audit objective:

- The answer to the audit objective would be positive if 90 percent of the selected planned outputs were achieved or were on schedule to be achieved by their respective grant agreement end date.
- The answer to the audit objective would be qualified if less than 90 percent, but not less than 70 percent, of the selected outputs were achieved or were likely to be achieved by their respective grant agreement end date.
- The answer to the audit objective would be negative if less than 70 percent of all planned outputs were achieved or were likely to be achieved by their respective grant agreement end date.

MANAGEMENT COMMENTS



USAID | **SRI LANKA**
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June 7, 2007

MEMORANDUM

TO: Catherine Trujillo, Regional Inspector General/Manila

FROM: Rebecca Cohn, Mission Director, USAID/Sri Lanka /s/

SUBJECT: Audit of USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program Selected Outputs Implemented by Development Alternatives, Inc. (Audit Report No. 5-383-07-00X-P)

The USAID Mission in Sri Lanka would like to thank the Regional Inspector General (RIG) and its team of auditors for the collegial, transparent and constructive approach they took in assessing the level to which the Sri Lanka Transition Initiatives program achieved targeted outputs with tsunami-earmarked funding. The Mission is gratified to learn that small-grant activities evaluated by the RIG delivered what they promised more than 90 percent of the time.

While understanding RIG's concerns about grant number DAIC518, the Mission does not concur with the auditors' recommendation that the Mission request Development Alternatives, Inc. (DAI) to cancel the activity, a road rehabilitation project in the tsunami-affected town of Kattankudy, Batticaloa District. The reasons for continuing the project include the following:

- Project delays on DAIC518 resulted largely from a technical error, which was not the fault of the grantee but of engineers attached to elected local government bodies. These delays were compounded by inclement weather and political instability, neither of which the grantee can control;
- The technical error involved an inadequate estimate of what would be required to successfully implement this project. The error has been corrected by a re-validation of the project by DAI's engineering sub-contractor, NEAT Solutions Inc., that added roadside drainage to the project given the flood-prone nature of the area. Completing the road without the appropriate drainage would have negated the USG investment in the road construction;

- Road and drainage rehabilitation has been identified as a top development priority by the community and local authorities;
- Expectations have been raised in the adjacent Tamil and Muslim villages and neighborhoods that the road project connects, and community ownership is high. During 2006, five community consultations and three meetings with local elected authorities were held to discuss and plan; in 2007, two volunteer community cleanup events to prepare for the road work were organized in parallel;
- Cancelling the project could damage USAID's credibility with the population and local authorities in the multi-ethnic community, which is within the regional focus of the Mission's planned conflict response programs to begin in FY08. Furthermore, it could erode trust between USAID and the politically and religiously divided Muslim population in the area, which has demonstrated the capacity for violence within their own community.

Mission Director Rebecca Cohn and Transition Initiatives Country Representative Mike DeSisti, accompanied by DAI program and implementation staff, visited the road site on May 30, 2007, and met with the grantee, Sarvodaya, a local NGO. Two weeks prior, DeSisti had met with DAI staff in the Ampara office to discuss the status of the activity in light of RIG's draft report and recommendation. Based on these and other field visits by USAID and DAI staff, which included discussions with a wide range of stakeholders related to the grant, the Mission has decided to move forward and complete the activity according to the modified agreement and timeline. As a process-oriented activity that aims to strengthen relationships within a community split along political and religious lines, and to increase the ability of local authorities to deliver services, it has already demonstrated impact that the Mission is reluctant to jeopardize. Furthermore, USAID is confident that the revised primary output from the activity – the rehabilitation of 2.5 km of tsunami-affected road and associated drainage construction – will be achieved according to the terms of the amended grant agreement.

By way of background, we wish to draw RIG's attention to the three objectives of the grant activity. These are to: 1) Build local government capacity to promote coexistence and reconciliation through collaborative identification, planning and implementation of projects that benefit a cross-section of members within divided communities; 2) Identify potential infrastructure projects of this sort for implementation in tsunami-affected Muslim and Tamil communities in Kattankudy; 3) Deliver public infrastructure improvements to these communities.

The role of the grantee for DAIC518, Sarvodaya, was threefold in achieving these objectives. Firstly, Sarvodaya was responsible for mobilizing participants and facilitating planning meetings involving community members and local government officials in four villages. Secondly, they were tasked with providing five days of training for 40 villagers and 10 local government officials on conflict mitigation, peace building, and conflict-sensitive project management. Lastly, they were asked to coordinate and ensure continued collaboration between the Muslim and Tamil villages and local government officials in the road rehabilitation work.

The three modifications to the original grant activity approved by USAID's Office of Transition Initiatives (OTI) were necessitated by an inaccurate bill of quantities. The error was made not by the grantee, but by engineers employed by the local elected council, the Manmunai North Pradeshiya Sabha. These OTI-approved changes

included a time extension due to delays in the road rehabilitation work, a budget modification required by the revised bill of quantities, and a corresponding adjustment of the quantitative outputs. OTI approved these modification requests in confidence that with the technical issue resolved, grant outputs as well as longer-term, higher-order outcomes would be achieved.

If the exclusive objective of this grant were to rehabilitate roads with disregard for the empowerment of the Pradeshiya Sabha, (re-)establishment of links between communities and local government officials, and improved relationships between the diverse and divided communities themselves, OTI could have skipped the process-oriented consultations and training and partnered with a grantee whose primary expertise was road construction. A significant aim of this activity, however, was focused on rebuilding the social fabric within and between diverse communities affected not only by the tsunami but by more than 20 years of conflict. Sarvodaya has a demonstrated track record of success in this regard, and was chosen as the grantee partly for this reason. The road project thus became both a means to an end – minimally peaceful coexistence, but ideally reconciliation -- and an end in itself.

To sum up, USAID is committed to finishing what it has started under DAIC518 in the conflict- and tsunami-affected communities between the predominantly Muslim town of Kattankudy and the predominantly Tamil town of Ariyampathy. Expectations have been raised, and USAID's credibility is at stake. The primary issues with this grant activity to date have been related to technical miscalculations – specifically, the absence of a drainage system in the original design -- security constraints and inclement weather. The technical expertise of DAI's engineering sub-contractor, NEAT Solutions, allows the grantee to focus on "soft components" of the activity related to mediating between communities who are potentially at odds, and as well between the ethnically and politically diverse local authorities elected and appointed to serve them.

The Mission therefore is of the view that moving forward with the activity, with Sarvodaya continuing as grantee, is a sound choice considering the Mission's future strategy and the small-grants program's mandate to set the stage for this more conflict-sensitive approach, with a regional focus in the Eastern and North-Central provinces. USAID and DAI have already increased monitoring of the work in progress to ensure that the revised outputs are completed by the end of the calendar year at latest, which is the deadline for disbursement of tsunami supplemental funding obligated to DAI. Above and beyond its obligations under the grant agreement, Sarvodaya has agreed to form a road rehabilitation management committee, comprised of a cross section of key stakeholders, including the community. The committee will meet twice monthly to discuss progress; problems will be reported to DAI.

In addition to our response regarding grant number DAIC518, there are some factual inaccuracies within the report. First, on page two of the report it says "*On July 28, 2005, USAID increased an existing \$45 million contract that it awarded to Development Alternatives, Inc (DAI) by \$20 million.*" The original DAI contract was actually for \$14 million. Then on June 6, 2005 USAID modified the DAI contract to increase the total estimated cost by \$31 million, bringing the total estimated cost of the contract to \$45 million. Then in a separate modification dated July 28, 2005 USAID obligated the \$19,955,288 in Tsunami Supplemental funds. Second, on the

bottom of page 8 and on the top of page 9 there are several references to the "*OTI engineering consultant.*" The consultant was, in fact, brought on by DAI.

In conclusion, we request that the RIG modify its draft recommendation to support a successful conclusion of this OTI small grant.

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