OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PAKISTAN'S FIRMS PROJECT

AUDIT REPORT NO. G-391-12-001-P
NOVEMBER 3, 2011

ISLAMABAD, PAKISTAN

Office of Inspector General

November 3, 2011

MEMORANDUM

TO: USAID/Pakistan Mission Director, Andrew D. Sisson

FROM: Office of Inspector General/Pakistan, Director, Joseph Farinella /s/

SUBJECT: Audit of USAID/Pakistan's Firms Project (Report Number G-391-12-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments and included your responses in Appendix II.

The report contains nine recommendations to help the mission improve various aspects of the program. On the basis of the information provided by the mission in response to the draft report, we determined that final action has been taken on five recommendations, and management decisions have been reached on three recommendations. A management decision has not been reached on one recommendation. A determination of final action will be made by the Audit Performance and Compliance Division when the mission completes planned corrective actions on the remaining recommendations.

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

U.S. Agency for International Development
American Embassy, Diplomatic Enclave
Ramna 5, Islamabad, Pakistan
www.usaid.gov/oig

CONTENTS

SUMMARY OF RESULTS

Pakistan, a member of the World Bank's Lower-Middle-Income group of countries,[1] continues to underperform in terms of economic growth and social development compared with other countries in that group, such as India and Sri Lanka. The devastating floods in mid-2010 added to the economic woes of the country. The government's strategy focuses on regaining economic stability and on structural reforms required to support strong and sustainable growth.

To help improve Pakistan's economic stability, USAID/Pakistan awarded a 4-year, $89.8 million contract in May 2009 to Chemonics International (Chemonics) to implement the Firms Project. The project's goal is to develop and improve the productivity and competitiveness of Pakistani small to medium-size firms by increasing exports and employment. In July 2010, 14 months after the award, USAID modified the project's goal to promote economic development in vulnerable areas in Pakistan as an alternative to extremism. The project set out to achieve its revised goal through two complementary components:

- *Private Sector Development.* This component's goal is to create sustainable employment by developing market-driven sales opportunities. The component seeks to increase sales by 20 percent and employment by 10 percent by the end of the project.

- *Improvement of the Business-Enabling Environment.*[2] This component's goal is to improve the capabilities of the Pakistani Government to facilitate and accelerate economic development. The component's 2-year targets were to develop strategies for economic districts and to effect regulatory reform for economic development.

As of May 2011, USAID/Pakistan had obligated approximately $42 million and expended $29 million on the Firms Project.

USAID's Office of Inspector General in Pakistan conducted this audit to determine whether USAID/Pakistan's Firms Project was achieving its main goal: to expand economic opportunities through sales and employment.

A review of the first 2 years showed that the Firms Project was not on track to achieve its main goal. Despite the mission's attempt to increase sales and employment in a number of sectors—leather, livestock, textile, dates, and mangoes—the audit found no measureable increases in sales or employment. Project activities did not increase sales or employment in the leather, livestock, textile, or date sectors because of shifts in U.S. Government strategy that resulted in the cancellation of these activities. Efforts to boost sales and jobs in the mango sector were stalled, and activities to improve competitiveness through economic policy reform were behind schedule.

The audit disclosed the following problems with project implementation and management:

[1] Each country in this group had a 2010 gross national income (GNI) per capita of $1,006 to $3,975. Pakistan's 2010 GNI per capita was $1,050, according to the World Development Indicators Database.
[2] The business-enabling environment component assists the private sector in developing and articulating policy and regulatory reforms that will improve competitiveness.

- Sector-specific activities did not increase sales or employment (page 3).
- The performance management plan did not meet Agency standards (page 4).
- The approving official did not provide sufficient procurement oversight (page 6).
- Efforts to improve the business-enabling environment fell short (page 7).
- The mission did not complete annual past performance evaluations (page 8).

To address these problems, we recommend that USAID/Pakistan take the following actions:

1. Develop and implement a plan with measurable targets to help ensure the mango activity achieves its contract goals (page 4).

2. Develop and implement a performance management plan for the Firms Project that complies with USAID's Automated Directives System (ADS) 203 and adjusts targets to reflect strategy shifts, delays, and current conditions (page 6).

3. Develop procedures to collect and analyze indicator results periodically to measure progress toward planned results in accordance with ADS Chapter 203 (page 6).

4. Instruct Chemonics to exclude from project sales totals all procurements from local vendors (page 6).

5. Determine the allowability of $1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable (page 7).

6. Verify that Chemonics has corrected all procurement deficiencies identified in this report (page 7).

7. Develop and implement procedures to conduct site visits to ensure goods and services acquired under the Firms contract are maintained in accordance with Agency property management standards and requirements (page 7).

8. Reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals (page 8).

9. Complete and file all past performance reports in accordance with federal and USAID policies and procedures (page 8).

Detailed findings follow. Our evaluation of management comments is on page 9. Appendix I presents the audit scope and methodology, and Appendix II contains the full text of management comments.

AUDIT FINDINGS

Sector-Specific Activities Did Not Increase Sales or Employment

The project developed strategies to improve the quality of production and increase exports. Despite the mission's attempt to increase sales and employment in a number of sectors—leather, livestock, textile, dates, and mangoes—the audit found no measureable increases in sales or employment. Project activities did not increase sales or employment in the leather, livestock, textile, or date sectors because of shifts in U.S. Government strategy that resulted in the cancellation of these activities. Efforts to boost sales and jobs in the mango sector were stalled, and activities to improve competitiveness through economic policy reform were behind schedule.

Leather Sector. The Firms Project developed a 3-year strategy for small to medium-size leather enterprises in the provinces of Punjab, Sindh, and Khyber Pakhtunkhwa. This strategy identified underdeveloped leather markets and recommended development projects that would increase domestic and international leather sales. Because of a shift in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing U.S. assistance programs, USAID/Pakistan decided not to continue this project. Consequently, the project did not increase sales or employment.

Livestock Sector. The Firms Project conducted a study of the livestock sector to determine the economic viability of dairy and meat-processing activities. The study proposed working with district and provincial governments to amend livestock policies to eliminate market constraints. To date the livestock sector has not enacted any policies or regulatory reforms, and USAID discontinued dairy and meat-processing activities in favor of programs to provide assistance with flood recovery. For this reason, project-sponsored dairy and meat-processing activities did not increase sales or employment.

Textile Sector. The Firms Project completed an assessment of three textile areas: cotton ginning, dye processing, and apparel. Drawing on the assessment, project officials planned activities focused on building technical capacity, upgrading infrastructure, and improving cotton growing and ginning. The Firms Project sponsored an apparel event for small to medium-size businesses in July 2010 before the mission curtailed textile activities in order to provide humanitarian assistance in areas affected by military operations. Because activities were curtailed, the project failed to meet its goal to increase sales and employment in textiles.

Date Sector. The Firms Project developed a 3-year strategy that identified economic opportunities for the date sector. Two activities were initiated, one for export marketing and the other for plastic crate distribution. In 2010 the export marketing activity sponsored an event to introduce date farmers to international food safety standards, quality production techniques, and storage procedures. The second activity provided 70,000 crates to date growers to improve product quality. After the August and September 2010 floods, the mission terminated both activities to redirect resources to humanitarian assistance. The termination prevented activities in this sector from expanding economic opportunities by increasing sales and employment.

Mango Sector. The goals of the mango activity, as stated in the contract, are to expand sales by 20 percent by producing export-quality mangoes and to employ more people. Chemonics' second-year implementation plan states that the project successfully designed and implemented several enhancements to mango production that resulted in substantial improvements across the sector and enabled producers to overcome export constraints. Contrary to the contractor's 2010 implementation plan, the audit found that the mango activity had not implemented enhancements and was 1 year behind schedule.

After identifying potential domestic and international markets for mangoes, the Firms Project selected farmers to participate in a cost-sharing activity that processed mangoes for export. The audit found that the processing arrangement—providing 13 mango farmers with processing equipment that cleans, freezes, and stores mangoes—was not succeeding because equipment was not delivered on schedule. Only one farmer had received all the equipment promised, and this farmer was unable to operate the equipment because a significant design flaw interfered with its assembly.

Equipment procured remained idle, preventing the mango farmers from reaching their goal of exporting mangoes to international markets. If delays persist, they could lead to loan defaults by farmers who depend on proceeds from export sales for loan repayment. To get the activity back on track and prevent loan defaults, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Pakistan develop and implement a plan with measurable targets to help ensure the mango activity achieves its contract goals.*

Performance Management Plan Did Not Meet Agency Standards

According to ADS 203.3.2, performance management involves monitoring the achievements of program operations and collecting and analyzing performance information to track progress toward planned results. To plan and manage their monitoring, evaluation, and progress-reporting tasks, USAID missions use a performance management plan (PMP). A PMP should state the full set of performance indicators, provide baseline values and targets, disaggregate performance indicators by sex wherever possible, specify the source of the data and the method for data collection, specify the schedule for data collection, describe known data limitations, describe the data quality assessment procedures, estimate the costs of collecting and using data, identify possible evaluation efforts, and include a calendar of performance management tasks.

As for the indicators in the PMP, ADS 203.3.4.2 states that mission staff should select performance indicators that are objective, practical, useful for management, direct, attributable to USAID and U.S. Government efforts, timely, and adequate. ADS notes that it may be difficult or unrealistic to select performance indicators that meet all these criteria.

According to ADS 203.3.4.6, mission staff should update PMPs regularly with new performance information as projects develop and evolve.

Although the mission approved the Chemonics PMP, the PMP did not comply with ADS 203. Specifically, the PMP (1) did not establish effective performance baselines, (2) did not specify the method for collecting data to measure progress toward goals, and (3) did not develop measurable performance indicators.

Baselines. Mango activities in Punjab Province employed different methods to develop a baseline for the indicator *Number of permanent jobs created*. The first method converted temporary or casual labor to permanent labor, whereas the second method disregarded casual labor entirely. Without a standard conversion method, the project was unable to report a meaningful baseline for the indicator. Likewise, the textile and date projects used telephone calls to gather activity data. Those making the telephone calls followed no formal questionnaire that addressed a standard set of project issues and concerns necessary to develop a meaningful economic assessment. Consequently, the baselines for textile and date activities were not reliable.

Data Collection Methods. The Firms Project maintained no systematic method for collecting, assessing, and reporting performance results on sales and employment. Current methods for collecting and assessing performance data are inconsistent and unreliable. For example, the project overstated sales and employment figures by including procurements as project sales—60 percent of reported sales through January 31, 2011, were procurements of equipment from local vendors. Similarly, employment gains related to local procurements were included in employment figures reported by the project.

Performance Indicators. Some of the performance indicators developed did not meet the seven criteria in ADS 203.3.4.2. The indicators in question were the following:

1. *Number of economic growth strategies developed for project-assisted sectors or firms.*

2. *Number of marketing events conducted with project assistance to address export opportunities in target sectors.*

3. *Number of project-assisted workforce development training events conducted.*

4. *Number of feasibility studies for project-assisted sectors or firms.*

5. *Number of district economic development strategies prepared with project assistance.*

6. *Number of priority policy or regulatory reforms identified as a result of project assistance.*

Results for each of the six indicators referenced were not relevant or reliable in measuring project outcomes. Because the indicators measure activities not necessarily correlated with the project goal, the results derived from these indicators cannot be used to evaluate the project's progress toward increasing sales and employment. Moreover, because of U.S. strategy shifts in Pakistan, project activities have changed considerably, and implementers have gained greater understanding of what is realistic in terms of the pace of reform. New indicators and targets are in order, especially related to mango production and export and district economic strategies and regulatory reform.

USAID/Pakistan needs a performance management plan that meets Agency standards and helps manage for results. The mission did not review the project's PMP in response to changes in activities and in the current operating environment. Such performance indicators should comply with ADS 203, including being reasonably attributable to the project's activities. Without clearly defining meaningful indicators—and establishing precise baselines and data collection methods for them—the mission will not be able to measure project progress and achievements accurately or use results to achieve the project goal. Consequently, we make the following recommendations.

Recommendation 2. *We recommend that USAID/Pakistan develop and implement a performance management plan for the Firms Project that complies with USAID's Automated Directives System 203 and adjusts targets to reflect strategy shifts, delays, and current conditions.*

Recommendation 3. *We recommend that USAID/Pakistan develop procedures to collect and analyze indicator results periodically to measure progress toward planned results in accordance with USAID's Automated Directives System 203.*

Recommendation 4. *We recommend that USAID/Pakistan instruct Chemonics to exclude from project sales totals all procurements from local vendors.*

Approving Official Did Not Provide Sufficient Procurement Oversight

ADS 630.3.2.1 states that administrative approval provides written evidence that, for a contract, USAID received the goods or services specified on the invoice and they conform to the requirements of the agreement between the vendor and USAID. In addition, ADS 630.3.4.1(c) indicates that completion of an administrative approval form signifies that the approving official, usually the COTR, executed the approval based on personal knowledge. This establishes that USAID received and accepted the exact quantity and quality of goods and services on USAID's behalf.

Contrary to this guidance, the COTR approved 22 invoices from June 2009 through November 2010 without personal knowledge that the goods and services ordered had been received. Specifically, the approving official, who completed the administrative approval form, did not execute the approval upon personal knowledge. Furthermore, the COTR did not conduct a site visit to the contractor's main office in Lahore or to program field sites where goods and services were procured. Consequently, the COTR did not discover material weaknesses in the contractor's procurement practices.

Material weaknesses in the contractor's procurement practices were not detected because the COTR did not provide sufficient monitoring and oversight. Hence, USAID/Pakistan did not obtain evidence that the exact quantity and quality of goods or services received conformed to Chemonics purchase orders. Our audit found that 40 of the 43 purchase orders sampled did not meet standard voucher reconciliation procedures. Below are several instances of the contractor's procurement deficiencies:

- 23 purchase orders lacked receiving reports confirming that the exact quantity and quality of goods and services were accepted.

- 38 purchase orders did not include required procurement plans.

- 19 purchase orders did not include written specifications for the specific goods and services procured.

- 13 procurement records did not document procurement solicitation bids.

The above examples of weak controls over payments provide evidence that USAID may not know whether goods or services purchased were received or whether they met purchase order requirements. Consequently, the report questioned costs of approximately $1,359,337 for the 40 incomplete purchase orders.

Prompted by our audit, Chemonics initiated its own internal review of procurements and subcontract awards. Chemonics conceded that improper project procurements occurred during the audit period and agreed to a credit of $725,784 to the March 2011 project invoice. Although Chemonics has returned a portion of project funds to USAID/Pakistan, we make the following recommendations.

Recommendation 5. *We recommend that USAID/Pakistan determine the allowability of $1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable.*

Recommendation 6. *We recommend that USAID/Pakistan verify that Chemonics has corrected all procurement deficiencies identified in this report.*

Recommendation 7. *We recommend that USAID/Pakistan develop and implement procedures to conduct site visits to ensure goods and services acquired under the Firms contract are maintained in accordance with Agency property management standards and requirements.*

Efforts to Improve the Business-Enabling Environment Fell Short

The Firms Project contract set two targets to be completed by the end of the second year (April 2011) to improve the business-enabling environment:

- Five district economic development strategies will have been started.
- Government will have implemented two policy or regulatory reforms.

However, as of May 2011, Chemonics had completed only two of five strategies for economic development at the district level. Furthermore, no regulatory reforms to facilitate economic development had been enacted by any government entity.

Chemonics was unable to achieve these two targets for two reasons. USAID/Pakistan did not set realistic targets. Chemonics officials stated that regulatory reform is a long-term process that can take from 10 to 12 years in Pakistan. The officials explained that the regulatory reform process involves numerous stakeholders and sectors within the government. The number of stakeholders involved in the process influences the length of time necessary to enact regulatory reform.

Because the project had not achieved 50 percent of either target after 2 years of implementation (the project midpoint), the audit concluded that Chemonics would not achieve the two targets by the end of the contract, May 2013. Without achieving these targets, the project may not be able to improve the business-enabling environment. Therefore, we make the following recommendation.

> ***Recommendation 8.*** *We recommend that USAID/Pakistan reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals.*

Mission Did Not Complete Annual Past Performance Evaluations

The Federal Acquisition Regulation (FAR) 42.1502(b) generally requires agencies to evaluate contractor performance and prepare a past performance report for each contract that exceeds the simplified acquisition threshold. USAID Acquisition Regulation 742.15 requires USAID contracting officers to report contractor performance information at least annually. Furthermore, USAID issued an Executive Message dated June 10, 2011, instructing all COTRs to complete and use the past performance reports in accordance with FAR Subpart 42.15.

The mission did not complete annual contractor performance evaluations of Chemonics as required. The mission should have completed two performance reviews by May 2011, 2 years after awarding the contract. According to the contracting officer, the failure to conduct a contractor performance review for the first year and late filing for the second year occurred because of rotations of USAID contracting officials, whose tours normally last 1 year.

Past performance reports are a critical component of USAID's ability to select development partners who have proven capability to safeguard funds through systems that control costs and manage subcontractors. In addition, regular, comprehensive, and conscientious performance evaluations serve as a significant incentive to contractors to provide USAID with superior products and services. The contractor's past performance report is a valuable monitoring and evaluation tool for the mission and a means to ensure contract compliance. We therefore make the following recommendation.

> ***Recommendation 9.*** *We recommend that USAID/Pakistan complete and file all delinquent and future past performance reports in accordance with federal and USAID policies and procedures.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with all recommendations in the draft report. The mission suggested certain wording changes to the text of the report, which we made as appropriate. In its comments on the draft report, the mission pointed out that significant reprogramming noted in the findings of the report occurred during a time of extraordinary foreign policy change along with a historic humanitarian disaster.

We determined that final action has been taken on five recommendations, and management decisions have been reached on three recommendations. One recommendation remains without a management decision. The status of each of the nine recommendations is shown below.

Final action has been taken on Recommendations 1, 3, 4, 7, and 9, and management decisions have been reached on Recommendations 2, 6, and 8. A management decision has not been reached on Recommendation 5.

Recommendation 1. We recommend that USAID/Pakistan develop and implement a plan with measurable targets to help ensure the mango activity achieves its contract goals.

The Office of Economic Growth (EG) has developed and implemented a monitoring plan to track the progress of the partner mango farmers. Final action has been taken, and Recommendation 1 is closed.

Recommendation 2. We recommend that USAID/Pakistan develop and implement a performance management plan for the Firms Project that complies with USAID's ADS 203 and adjusts targets to reflect strategy shifts, delays, and current conditions.

The EG office is revising the PMP so that the results framework reflects the shift in geographical focus, the change in scope, and current conditions. Mission officials estimate that this document will be completed and implemented by January 31, 2012. A management decision has been reached on Recommendation 2.

Recommendation 3. We recommend that USAID/Pakistan develop procedures to collect and analyze indicator results periodically to measure progress toward planned results in accordance with ADS 203.

The mission has initiated a mission-wide independent monitoring and evaluation contract on all mission program activities. The scope of this contract is to provide verification, monitoring, evaluation, and reporting for all mission projects throughout Pakistan in compliance with ADS 203. Final action has been taken, and Recommendation 3 is closed.

Recommendation 4. We recommend that USAID/Pakistan instruct Chemonics to exclude from project sales totals all procurements from local vendors.

The mission has instructed Chemonics to use the standard sales definition when reporting sales and not to include procurements from local vendors as increases to sales and employment. Final action has been taken, and Recommendation 4 is closed.

Recommendation 5. We recommend that USAID/Pakistan determine the allowability of $1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable.

The Office of Acquisition and Assistance, the Office of Financial Management, and the technical office (EG) will investigate the unsupported questioned costs and make a decision on those costs. A management decision on this recommendation will be reached when USAID/Pakistan determines whether the questioned costs are allowed or disallowed; final action will occur when any disallowed amount is collected.

Recommendation 6. We recommend that USAID/Pakistan verify that Chemonics has corrected all procurement deficiencies identified in this report.

The mission plans a financial review of Firms Project costs that will verify that Chemonics has corrected all procurement deficiencies identified in this report on or by June 30, 2012. A management decision has been reached on Recommendation 6.

Recommendation 7. We recommend that USAID/Pakistan develop and implement procedures to conduct site visits to ensure goods and services acquired under the Firms contract are maintained in accordance with Agency property management standards and requirements.

USAID/Pakistan has modified the contract to include procedures to conduct site visits to ensure that contract goods and services are received and maintained according to Agency standards. Final action has been taken, and Recommendation 7 is closed.

Recommendation 8. We recommend that USAID/Pakistan reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals.

The EG office has been working with Chemonics to develop an improved set of results and corresponding indicators that cover the business-enabling environment component. The Logical Framework Analysis and PMP will be finalized by January 31, 2012. A management decision has been reached on Recommendation 8.

Recommendation 9. We recommend that USAID/Pakistan complete and file all delinquent and future past performance reports in accordance with federal and USAID policies and procedures.

USAID/Pakistan initiated the process of completing and filing all past performance reports for years 2009 and 2010. As of September 2011, all past performance reports had been filed in the Contractor Performance Assessment Reporting System. Final action has been taken, and Recommendation 9 is closed.

A determination of final action will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions for Recommendations 2, 5, 6, and 8.

The mission's written comments on the draft report are included in their entirety, without attachments, as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards.[3] Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The audit objective was to determine whether USAID/Pakistan's Firms Project was achieving its main goal to expand economic opportunities through sales and employment. No previous audits have addressed the project reviewed.

To implement the Firms Project, USAID/Pakistan signed an agreement for $89.8 million with Chemonics in May 2009. As of May 2011, USAID/Pakistan had obligated $42 million and expended approximately $29 million on the project. USAID/Pakistan's Firms Project is conducting economic growth activities in four provinces: Punjab, Sindh, Balochistan, and Khyber Pakhtunkhwa.

The audit covered activities implemented from May 2009 through May 2011. The audit team reviewed mission documents concerning project management, agreements, implementation plans, and the monitoring and evaluation plan and procedures. Additionally, the audit team conducted interviews with USAID/Pakistan project administrators, Chemonics officials, and project beneficiaries.

We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to USAID/Pakistan's project—namely, certifications required by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255, as codified in 31 U.S.C. 3512) and ADS Chapters 202, 203, 302, 596, and 630. The audit relied on the following sources of evidence: reviews of Agency policies and internal controls, interviews with and information gathered from Chemonics officials, and interviews with USAID/Pakistan officials. We performed audit fieldwork from February through June 2011 from USAID/Pakistan mission offices and Chemonics program offices in Islamabad and Lahore. Because of security concerns throughout Pakistan, the Embassy's Regional Security Office did not approve visits to program sites located in southern Punjab.

Methodology

To answer the audit objective, the audit team interviewed officials at USAID/Pakistan and Chemonics either in person or by telephone. We also reviewed and analyzed project documents that included the COTR's project files, implementation plans, progress reports, annual project reports, product evaluations and studies, meeting notes, and pertinent e-mails.

[3] GAO-07-731G (July 2007 Revision).

The audit team conducted a risk assessment to determine the level of controls in place to manage the program. The risk assessment identified control risk as high for procurement of goods and services.

The audit tested whether Chemonics' procurement procedures complied with USAID regulations and applicable procurement policies. The audit team judgmentally selected a sample of 22 invoices for compliance review from June 2009 through November 2010. A line item from the sampled invoices was selected and submitted to Chemonics for further details. A detailed breakdown of each line item was provided, and from this data, the audit team reviewed all items in excess of $2,000. Our selection resulted in 43 purchase orders. Standard voucher reconciliation procedures were applied to these 43 purchase orders sampled for deficiencies.

Because the mission itself reported minimal progress in achieving the project's goals, we believe that our substantive testing was sufficient to support our conclusion that the project has not made tangible progress toward achieving the project's stated goals.

MANAGEMENT COMMENTS

USAID | PAKISTAN
FROM THE AMERICAN PEOPLE

MEMORANDUM

Date:	October 11, 2011
To:	Joseph Farinella Director OIG/Pakistan
From:	Rodger Garner /s / Acting Mission Director
Subject:	Management Comments on Audit of USAID/Pakistan's Firms Project
Reference:	Draft Report No. G-391-11-00X-P September 09, 2011

In response to the referenced draft audit report, please find below management comments on the nine recommendations included therein. The mission would point out that significant reprogramming noted in the findings of the report occurred during a time of extraordinary foreign policy change not to mention a historic humanitarian disaster. Therefore, decisions which affected achievement of project objectives were beyond the control of the mission on the implementation of the project.

Recommendation no.1: We recommend that USAID/Pakistan develop and implement a plan with measurable targets to help ensure the mango activity achieves its contract goals.

Management Comments:
Mission management concurs with the recommendation. The Office of Economic Growth (EG) has been working closely with Chemonics since April 2011 to develop a rigorous monitoring plan to track the progress of the partner mango farmers. This entailed adopting a two pronged approach as a result of which two separate tracking reports have been developed and implemented as of May 01, 2011. The first reviews the progress of the mango pack houses including USAID and farmer contributions. Chemonics is required to report this data every two weeks. This tracker is enclosed as Annex A. The second report monitors the domestic and export sales for each mango farm by tracking total production, average sales price and value of sales. This report is submitted by Chemonics on a monthly basis and is attached as Annex B. This periodic monitoring of the mango farms has indicated an increase in the exports and productivity compared to previous year.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

Recommendation no.2: We recommend that USAID/Pakistan develop and implement a performance management plan for the Firms Project that complies with USAID's Automated Directives System 203 and adjusts targets to reflect strategy shifts, delays, and current conditions.

Management Comments:
Mission management concurs with the recommendation. EG Office has been working with Chemonics to revise the existing Performance Management Plan (PMP) for the Firms project to make it more results based. In this regard, a Logical Framework Analysis (LFA) matrix has been developed. While the key components (business enabling environment and private sector led value chains) have been retained, the results statements have been rationalized. Furthermore, the respective indicators have been reduced and made measurable by adding baselines, targets and milestones.

The revised PMP with an improved version of the results framework is being worked on to reflect the shifts in the geographic focus, change in scope and current conditions. The document will be finalized by January 31, 2012.

Recommendation no. 3: We recommend that USAID/Pakistan develop procedures to collect and analyze indicator results periodically to measure progress toward planned results in accordance with USAID's Automated Directives System 203.

Management Comments:
Mission management concurs with the recommendation. A Mission wide Independent Monitoring and Evaluation Contract (IMEC) is in place since June 2011. The scope of the contract is to provide verification, monitoring and evaluation, and reporting throughout Pakistan, across all projects that USAID is supporting, regardless of the implementation mechanism. The IMEC contractor will monitor compliance of all implementers with the full terms of their agreements with USAID. This will include monitoring project effectiveness by developing and implementing program monitoring plans, by collecting and collating qualitative and quantitative data on performance through site visits, and by producing regular substantive project performance reports. The contract also entails maintenance/refinement of the PakInfo (MIS/GIS) into an integrated M&E system that enables the Mission and Office of Afghanistan and Pakistan Affairs (OAPA) to continuously assess performance. PakInfo is a recently developed web-based system which tracks project and portfolio information. It will contribute to the Mission's overall effort to strengthen its performance management capacity and strengthen our compliance with ADS 203.

On the project level, EG Office continues to work closely with Chemonics to update the monitoring systems of the Firms project to include the revised set of indicators in order to monitor performance against expected results on periodic basis. The first progress report using the revised results framework will pertain to the period October to December 2011 and will be ready by January 31, 2012.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

Recommendation no. 4: We recommend that USAID/Pakistan instruct Chemonics to exclude from project sales totals all procurements from local vendors.

Management Comments:
Mission management concurs with the recommendation. Chemonics has been instructed by email attached as Annex C to use the standard definition of sales in reporting and not to include procurements

from local vendors as increases in sales and employment in the sectors and sub-sectors in which the Firms project works as part of the private sector development component.

The sales tracker for the mango component (attached as Annex B in response to recommendation 1 above) already reflects the adjustment. The revised PMP, LFA, the IMEC system and all future progress reports will also reflect this change.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

Recommendation no. 5: We recommend that USAID/Pakistan determine the allowability of $1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable.

Management comments:
Mission Management concurs with this recommendation. The Office of Acquisition and Assistance (OAA) will work in collaboration with the Office of Financial Management and the technical office to investigate the unsupported questioned costs. Considering the substantial amount being questioned, OAA needs additional time to research the matter and therefore respectfully requests additional time to make a conclusive determination. The management decision will be conveyed to OIG/Pakistan under a separate memorandum on or before November 30, 2011.

Recommendation no. 6: We recommend that USAID/Pakistan verify that Chemonics has corrected all procurement deficiencies identified in this report.

Management comments:
Mission management concurs with the recommendation. The Office of Financial Management has planned to perform a financial review of the Firms project covering local costs incurred since the inception of the project. This review has been included in the Financial Review Plan for 2012, and will cover all locally incurred expenditures, including procurement items identified in the OIG's audit report.

Since Chemonics is currently in the process of revising and updating its policy and procedure manuals which are expected to be finalized by December 2011, this financial review is planned to be conducted in April 2012 once Chemonics has all its policies firmly in place and proper implementation can be verified. Results of the financial review would be available by June 30, 2012.

Recommendation no. 7: We recommend that USAID/Pakistan develop and implement procedures to conduct site visits to ensure goods and services acquired under the Firms contract are maintained in accordance with agency property management standards and requirements.

Management comment:
Mission management concurs with the recommendation. The Office of Acquisition and Assistance has already modified the existing contract to include procedures to conduct site visits to ensure that contract goods and services are received and maintained according to Agency standards. The modification to the contract is attached as Annex D to the memorandum.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

<u>Recommendation no. 8:</u> We recommend that USAID/Pakistan reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals.

<u>Management comments:</u>
Mission management concurs with the recommendation. Developing concrete results statements and measurable indicators for the business enabling and policy advocacy components is usually a challenge. However, as mentioned in response to recommendation 2 above, EG office has been working with Chemonics to develop an improved set of results and corresponding indicators that cover the component for business-enabling environment.

The revised PMP, LFA, and the IMEC system will reflect this change and all future progress reports will report on these indicators, as applicable. As also mentioned above in response to recommendation 2, the LFA and the PMP will be finalized by January 31, 2012.

<u>Recommendation no 9:</u> We recommend that USAID/Pakistan complete and file all delinquent and future past performance reports in accordance with federal and USAID policies and procedures.

<u>Management comments:</u>
Mission management concurs with the recommendation. USAID/Pakistan initiated the process of completion and filing of past performance reports for years 2009 and 2010 by the ex-COTRs, in May 2010. This process was delayed due to transfer and change in the Contracting Officer (CO) for this award and introduction of the new Contractor Performance Assessment Reporting System (CPARS) for reporting past performance. The same has now been input/processed into the system. A copy of the report as of September 30, 2011 is enclosed as Annex E. The current status of reports is appearing as 'Rated' signifies that the reports have been signed by the Assessing Officer i.e. the CO.

Hence, corrective action on this recommendation has been taken by the Mission. Therefore, we request closure of this recommendation upon issuance of the final report.

Annex a/s

cc: ASIA/SCAA: Andrew Plitt

Summary of Chemonics' Questioned Costs
Monthly Invoices Submitted to USAID, June 2009–November 2010

Invoice	Invoice Date	Goods or Services Received	Questioned Amount ($)	Type of Noncompliance*			
				A	B	C	D
1. 051008	6/30/2009	Subcontractor/ Consultant/ RSM Co.	49,400.00		√		√
2. 051230	7/31/2009	Other Direct Cost / Professional Services	5,550.07		√		√
3. 051230	7/31/2009	Equipment & Vehicles / Computer Equipment	9,496.79	√	√	√	
4. 051368	8/31/2009	Other Direct Cost / Office Furniture	3,969.33	√	√		
5. 051368	8/31/2009	Equipment & Vehicles / Computer Equipment	9,693.25	√	√	√	
6. 051549	9/30/2009	Other Direct Cost / Office Make Ready†	69,246.95	√			
7. 051549	9/30/2009	Equipment & Vehicles / Computer Equipment	15,007.32	√	√	√	
8. 051669	10/31/2009	Other Direct Cost / Office Make Ready	37,811.17		√		
9. 051669	10/31/2009	Other Direct Cost / Office Make Ready	18,179.61		√		
10. 051669	10/31/2009	Other Direct Cost / Office Make Ready	191,358.67		√		
11. 051669	10/31/2009	Equipment & Vehicles / Computer Equipment	17,761.48		√		
12. 051669	10/31/2009	Equipment & Vehicles / Computer Equipment	37,328.81		√		
13. 051669	10/31/2009	Equipment & Vehicles / Computer Equipment	17,967.28		√		
14. 051669	10/31/2009	Equipment & Vehicles / Computer Equipment	2,278.51		√		
15. 051669	10/31/2009	Equipment & Vehicles / Computer Equipment	6,025.57		√		
16. 051823	11/30/2009	Other Direct Cost / Office Furniture	102,179.89	√	√	√	

Invoice	Invoice Date	Goods or Services Received	Questioned Amount ($)	Type of Noncompliance*			
				A	B	C	D
17. 051823	11/30/2009	Other Direct Cost / Office Furniture	16,881.71	√			√
18. 051823	11/30/2009	Other Direct Cost / Office Furniture	122,265.81	√	√	√	
19. 051823	11/30/2009	Other Direct Cost / Office Make Ready	63,128.60		√		
20. 051823	11/30/2009	Other Direct Cost / Office Make Ready	4,393.66		√		
21. 051823	11/30/2009	Other Direct Cost / Office Make Ready	8,133.80		√		
22. 051823	11/30/2009	Other Direct Cost / Professional Services	25,496.68	√	√		√
23. 051823	11/30/2009	Equipment & Vehicles / Computer Equipment	17,978.99	√	√	√	√
24. 051823	11/30/2009	Equipment & Vehicles / Computer Equipment	5,715.66	√	√	√	√
25. 051823	11/30/2009	Equipment & Vehicles / Computer Equipment	4,642.47	√	√	√	√
26. 051823	11/30/2009	Equipment & Vehicles / Computer Equipment	78,402.30	√	√	√	√
27. 051823	11/30/2009	Equipment & Vehicles / Computer Equipment	4,087.79	√	√	√	√
28. 051978	12/31/2009	Other Direct Cost / Office Furniture	9,869.51	√	√	√	
29. 051978	12/31/2009	Other Direct Cost / Office Furniture	18,767.28	√	√	√	
30. 051978	12/31/2009	Other Direct Cost / Office Make Ready	178,726.11	√	√	√	
31. 051978	12/31/2009	Equipment & Vehicles / Computer Equipment	41,840.01	√	√	√	
32. 051978	12/31/2009	Equipment & Vehicles / Computer Equipment	4,200.00	√	√	√	
33. 052568	4/30/2010	Equipment & Vehicles / Computer Equipment	99,549.50	√	√	√	
34. 052568	4/30/2010	Equipment & Vehicles / Computer Equipment	3,907.98	√	√	√	

Invoice	Invoice Date	Goods or Services Received	Questioned Amount ($)	Type of Noncompliance*			
				A	B	C	D
35. 052568	4/30/2010	Equipment & Vehicles / Computer Equipment	5,120.47	√	√	√	
36. 052568	4/30/2010	Other Direct Cost / Office Furniture	16,766.50	√	√	√	
37. 053113	7/31/2010	Equipment & Vehicles / Freight	8,852.07		√		√
38. 053113	7/31/2010	Equipment & Vehicles / Freight	11,793.64		√		√
39. 053113	7/31/2010	Equipment & Vehicles / Freight	11,739.64		√		√
40. 053113	7/31/2010	Equipment & Vehicles / Freight	3,821.88		√		√
Total			**1,359,336.76**	**23**	**38**	**19**	**13**

*Types of noncompliance are indicated by the following letters:

A = Lacked procurement receiving report
B = Did not develop a procurement plan
C = Did not document specifications for the goods and services procured
D = Did not document procurement solicitation bids

† The category "Office Make Ready" includes structural renovations.

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