



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/PAKISTAN'S SUPPORT TO THE BENAZIR INCOME SUPPORT PROGRAM

AUDIT REPORT NO. G-391-12-006-P  
MAY 21, 2012

ISLAMABAD, PAKISTAN



*Office of Inspector General*

May 21, 2012

**MEMORANDUM**

**TO:** USAID/Pakistan Mission Director, Andrew B. Sisson

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

**SUBJECT:** Audit of USAID/Pakistan's Support to the Benazir Income Support Program  
(Report No. G-391-12-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered USAID/Pakistan's comments on the draft report and have included those comments (without attachments) in Appendix II.

The report contains three recommendations to help USAID/Pakistan improve various aspects of the program. USAID/Pakistan agreed with the recommendations. On the basis of the information provided by the mission in response to the draft report, we determined that final actions have been taken on Recommendations 1 and 2, and a management decision has been made on Recommendation 3. A determination of final action on this recommendation will be made by the Audit Performance and Compliance Division when the mission completes planned corrective actions.

Thank you for the cooperation and courtesies extended to the audit team during this audit.

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# SUMMARY OF RESULTS

The Government of Pakistan launched the Benazir Income Support Program in 2008 to assist families in poverty. The program provides them with regular cash payments as a way of stabilizing the economy. Enrolled beneficiaries are paid 2,000 rupees (about \$22) every 2 months. Initially, members of the Pakistani Parliament submitted lists of potential beneficiaries. To reduce the risk of impropriety, the World Bank assisted the program in developing a poverty scorecard to select beneficiaries. Through a nationwide census, each household received a poverty score. Those falling below 16.17 qualify to receive program payments.

To support this effort, in September 2009 USAID/Pakistan signed an \$85 million cash transfer grant agreement with the Islamic Republic of Pakistan (Agreement No. 391-012-01) through the Economic Affairs Division of the Ministry of Economic Affairs and Statistics. The Government of Pakistan and USAID/Pakistan signed an amendment to the agreement in June 2010, providing an additional \$75 million and bringing the total amount to \$160 million. Under the terms of the agreement, on receiving the cash transfer, the government is to deposit the equivalent amount of Pakistani rupees immediately in a special local currency account to support program payments to eligible families. USAID/Pakistan must approve disbursements of funds from the account to the program. USAID/Pakistan's Program Office is responsible for monitoring the agreement. The Benazir Income Support Program is not a USAID program; it is a Government of Pakistan program receiving budget support from USAID through Agreement No. 391-012-01.

USAID's Office of Inspector General in Pakistan conducted this audit to determine whether USAID/Pakistan's cash transfers provided to the Benazir Income Support Program reached the intended beneficiaries.

The audit found that the first installment or tranche of \$85 million transferred to the Government of Pakistan in February 2010 was disbursed by the program to approximately 480,000 beneficiaries. The audit team reviewed program records for a statistical sample of 162 of the 480,000 beneficiaries and found that recipients' names, addresses, and payments were accurate. Further, program officials provided evidence of a poverty scorecard for each of the sample beneficiaries. In addition, USAID/Pakistan commissioned a survey that found that 98 percent of randomly sampled beneficiaries had received payments.

However, the audit found problems with the second tranche of \$75 million transferred on July 1, 2010:

- The mission has not approved disbursement (page 3). The funds were deposited in a Government of Pakistan special dollar account at the Federal Reserve Bank of New York. The government then withdrew the dollars and transferred the equivalent, 6.4 billion rupees, to a special local currency account for the program. Money in this account is to be disbursed to the program to support households in poverty and cannot be disbursed without USAID/Pakistan approval. As of March 2, 2012, USAID/Pakistan was withholding approval pending confirmation that the program had an effective monitoring and evaluation plan.
- The mission has not obtained from the Economic Affairs Division financial information needed to monitor the use of the transferred funds (page 4). Repeated requests for quarterly reports and bank statements have not produced them. Without the documents,

the mission was unaware that the government had deviated from the agreement by moving the funds, comingling them in the general budget account and then transferring them back.

- The mission did not confirm that beneficiaries had qualifying scores under the poverty scorecard system (page 5). Although the audit team reviewed the eligibility of those who received benefits when the first tranche was disbursed and found no problems, eligibility of recipients for the second installment should be checked.

Therefore, the report recommends that USAID/Pakistan:

1. Establish a policy of directing document requests pertaining to Agreement No. 391-012-01 to the Government of Pakistan's Economic Affairs Division, requesting the prompt submission of all information required for the release of the \$75 million for the program (page 4).
2. Establish a plan for periodic follow-up with the Government of Pakistan's Economic Affairs Division and the Benazir Income Support Program to obtain the required financial reports and bank statements (page 5).
3. Develop a plan to confirm on a sample basis that recipients have qualifying scores under the poverty scorecard system for the second tranche of \$75 million (page 5).

Detail findings appear in the following section. The audit scope and methodology are described in Appendix I. Appendix II contains management comments in their entirety (without attachments), and our evaluation of management comments is included on page 6 of the report.

# AUDIT FINDINGS

## **Mission Has Not Authorized Disbursement of the Second Tranche of Funds to the Program**

The Islamic Republic of Pakistan, acting through the Economic Affairs Division of the Ministry of Economic Affairs and Statistics, signed an amendment with USAID in June 2010 designed to stabilize the economy with a second tranche of \$75 million. The agreement's objectives included prompt disbursement of cash transfer dollars to support the overall Government of Pakistan budget and support the Benazir Income Support Program in making cash payments to low-income families. Through the amended agreement, USAID provided \$75 million to fund payments of 2,000 rupees (about \$22) every 2 months to the families.

The agreement includes specific requirements for the flow and use of funds. A Government of Pakistan separate dollar account at the Federal Reserve Bank of New York was established to receive USAID dollars. The agreement states that, promptly after each disbursement of a tranche under the grant, the Economic Affairs Division "shall withdraw all dollars of that tranche from the separate dollar account and shall deposit in the special local currency account for that tranche the equivalent amount of Pakistani rupees at the highest lawful rate available to the State Bank of Pakistan on the date of conversion."

In addition, the Government of Pakistan must receive approval from USAID/Pakistan to make disbursements to the program from the special local currency account and can disburse funds to the program only to support its payments to poor families. According to the June 2010 amendment, which pertains to the second tranche, the program must provide USAID/Pakistan evidence of an effective evaluation and monitoring plan before the program can receive funds.

The audit found that \$75 million was transferred to the separate dollar account in July 2010. The Government of Pakistan promptly withdrew this money. USAID/Pakistan reported that the government used the \$75 million to meet other obligations, thus meeting the objective relating to overall budget support. The government placed the equivalent value of 6.4 billion rupees in the special local currency account. However, as of March 2012, USAID/Pakistan had not authorized the government to transfer this money to the program because mission officials have been unable to verify that the program has implemented an effective monitoring and evaluation plan.

A USAID/Pakistan official explained that the second tranche was delayed initially because it took longer than expected to disburse the first tranche of \$85 million. Since full disbursement of the first tranche, however, USAID/Pakistan has requested documentation of an effective monitoring and evaluation plan multiple times. The Government of Pakistan has not yet complied with these requests.

Another potential delay in authorizing the transfer of the funds to the program was a senior official's belief that the principal purpose of the program was the disbursement of funds to support the fiscal accounts of the Government of Pakistan. For example, this official, responsible for the program, said he believed the program's goals were achieved when the dollars were disbursed to the government and that tracking the rupee flows should be a very

secondary factor in assessing the goals and success of this cash transfer. Other officials said this belief did not diminish their efforts to monitor the agreement and disburse the second tranche.

Nevertheless, overall budget support was not the only objective. The agreement also states that one of the principal objectives was to support the government's cash assistance program to low-income families. Because the Government of Pakistan has not used the 6.4 billion rupees to assist low-income families, this objective has not yet been met.

In addition, the audit noted that USAID/Pakistan's requests for documentation of the monitoring and evaluation plan have been directed to the program. However, according to the agreement, the grantee is Pakistan's Economic Affairs Division, and it is responsible for providing all documentation under the agreement. USAID/Pakistan officials explained that they started appealing directly to the program in the hope that it would respond faster.

As a result, the \$75 million transferred to the Government of Pakistan has yet to support payments to impoverished families as intended in the agreement.

***Recommendation 1.** We recommend that USAID/Pakistan establish a policy of directing document requests pertaining to Agreement No. 391-012-01 to Pakistan's Economic Affairs Division, requesting the prompt submission of all information required for the release of the \$75 million for the program.*

## **Mission Has Not Obtained Documents Required to Monitor the Use of Funds**

According to the cash transfer agreement, the Government of Pakistan is required to provide USAID/Pakistan with quarterly reports on the uses of local currency funds (6.4 billion rupees) and corresponding bank statements for the special rupee account until the funds are fully withdrawn and used for the program's purposes. An amendment to the agreement, dated June 2010, prohibits use of the 6.4 billion rupees for any purpose other than supporting the program and stipulates that the government can disburse funds to the program only with USAID/Pakistan approval. The agreement also states that the funds in the special rupee account cannot be comingled with other funds.

USAID/Pakistan has not received any bank statements from the Government of Pakistan since the cash transfer grant agreement was signed in 2009. Consequently, when the government moved funds out of the authorized special local currency account and comingled them in a general budget account in September 2010, USAID/Pakistan did not know. The 6.4 billion rupees remained in the general budget account for 8 months before the mission learned that the funds had been moved; the Government of Pakistan transferred the money back to the special local currency account in May 2011. In a letter to USAID/Pakistan, a government official explained that the funds were moved because "the Finance Division was probably not aware of subsequent amendments dated 28-06-2010 to the original Assistance Agreement revising the disbursement procedures."

Asked what they had done to obtain the needed documents, USAID/Pakistan officials said they had made several verbal requests to the Government of Pakistan before resorting to a formal written request in August 2011, 1 year after the funds were transferred. The mission sent

another written request in February 2012, during the audit. Internal requests within the Government of Pakistan followed, but as of March 2012, USAID/Pakistan had not received the required information. Mission officials also commented that a contributing factor to the struggle obtaining the information was turnover: in the past 20 months, four USAID/Pakistan program managers have supervised the program, and there has been similar turnover among key Government of Pakistan officials.

In May 2011, the mission received a spreadsheet from the Government of Pakistan reporting that the 6.4 billion rupees were returned to the proper local currency account. However, without bank statements, the mission cannot confirm the spreadsheet's accuracy or that the money was not used in ways prohibited by the agreement.

***Recommendation 2.** We recommend that USAID/Pakistan establish a plan for periodic follow-up with the Government of Pakistan's Economic Affairs Division and the Benazir Income Support Program to obtain the required financial reports and bank statements.*

## **Mission Did Not Review Eligibility Under the Poverty Scorecard System**

Initially, members of Pakistan's Parliament submitted lists of potential beneficiaries. To reduce the risk of impropriety, the World Bank assisted the program in creating a poverty scorecard to select beneficiaries. According to the agreement, all USAID funds transferred to the program are to be used exclusively for payments to families eligible under the poverty scorecard system. Through a nationwide census, each household received a poverty score. Those falling below 16.17 qualify to receive program payments. In practice, the 6.4 billion rupees will be comingled with the program's general budget; however, 6.4 billion rupees of payments to families qualifying under the poverty scorecard system must be attributed to USAID.

The mission attempted to monitor the payments received by the 480,000 reported beneficiaries under the first tranche of \$85 million. For example, the mission hired a contractor to perform a survey of more than 300 of them. The survey concluded that more than 98 percent of reported beneficiaries indeed received the reported payments. However, the contractor did not confirm that recipient families were eligible to receive payments under the poverty scorecard criterion.

The audit team examined records for a statistical sample of 162 of the 480,000 recipients. The records showed that all beneficiaries had poverty scorecards with qualifying scores.

USAID/Pakistan's program manager stated that the mission did not attempt to verify beneficiaries' eligibility because mission officials did not consider such verification to be among the required monitoring activities. However, the agreement states: "Funds will be used exclusively to finance [the program's] payments in 2010-11 to families eligible under the poverty scorecard system."

Without reviewing eligibility, the mission cannot be sure that cash transfers are being used for their intended purpose. Therefore, we make the following recommendation.

***Recommendation 3.** We recommend that USAID/Pakistan develop a plan to confirm on a sample basis that recipients had qualifying scores under the poverty scorecard system for the second tranche of \$75 million.*



# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with three recommendations in the report.

On the basis of the information provided by the mission in response to the draft report, we determined that final actions have been taken on Recommendations 1 and 2, and a management decision has been made on Recommendation 3.

***Recommendation 1.*** We recommend that USAID/Pakistan establish a policy of directing document requests pertaining to Agreement No. 391-012-01 to Pakistan's Economic Affairs Division, requesting the prompt submission of all required information required for the release of the \$75 million for the program.

USAID/Pakistan has adopted the practice of directing all document requests pertaining to Agreement No. 391-012-01 simultaneously to the program and to Pakistan's Economic Affairs Division and has requested the submission of all information required for the release of the \$75 million tranche. Accordingly, final action has been taken on this recommendation.

***Recommendation 2.*** We recommend that USAID/Pakistan establish a plan for periodic follow-up with the Economic Affairs Division and the Benazir Income Support Program to obtain the required financial reports and bank statements.

USAID/Pakistan developed a plan to follow up with the Economic Affairs Division and the Finance Division of the Government of Pakistan on a regular basis, in both formal and informal settings, until the requisite documentation is received. The mission provided evidence that it had conducted follow-up with the Economic Affairs Division and the Benazir Income Support Program. Accordingly, final action has been taken on this recommendation.

***Recommendation 3.*** We recommend that USAID/Pakistan develop a plan to confirm on a sample basis that recipients had qualifying scores under the Poverty Scorecard system for the second tranche of \$75 million.

USAID/Pakistan developed a plan to confirm on a sample basis that recipients had qualifying scores under the poverty scorecard system. The plan includes the following:

1. After disbursement of the 6.4 billion rupees from the second tranche, the program will share with USAID or its contractor the list of beneficiaries attributable to USAID funding.
2. USAID or the contractor will draw a representative sample from the list (sampling methodology to be determined later).
3. USAID or the contractor will then visit the program secretariat to access the records of the individuals in the sample and verify that they have scores under 16.17.

The mission set a target date of February 2013 to complete these steps. Accordingly, a management decision has been reached on Recommendation 3.

Regarding the first finding and recommendation, the report on page 3 states that a potential cause for the delay in transferring funds to the program was a senior mission official's belief that the principal purpose of the program was to support the fiscal accounts of the Government of Pakistan. Mission officials took exception to this in their comments. However, we presented this as one potential cause. We also noted on page 4 of the report that other officials said this belief did not diminish efforts to monitor and disburse the second tranche.

In its comments, the mission also stated that there are two program objectives—the disbursement of dollars from USAID to the Government of Pakistan and the distribution of rupees to beneficiaries. The report recognized the two objectives and stated them on page 4.

The foregoing does not alter the basic finding and recommendation. As previously stated, based on actions taken by the mission, final action has been taken on Recommendation 1.

The Audit Performance and Compliance Division will make a determination of final action on completion of the planned corrective actions for Recommendation 3. The complete text of mission comments on the report appears in Appendix II.

# SCOPE AND METHODOLOGY

## Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 purpose of this audit was to determine whether USAID/Pakistan's cash transfer provided to the Benazir Income Support Program reached the intended beneficiaries. No previous audits addressed the areas reviewed.

The audit covered the program from September 2009 through March 2012. As of February 28, 2012, USAID/Pakistan had obligated and expended approximately \$160 million on the program.

We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to USAID/Pakistan's program, including Automated Directives System Chapters 201, 204, 303, and 320 and supplemental guidance. The audit relied on the following sources of evidence: the agreement; interviews with officials from the Government of Pakistan's Economic Affairs Division and the program, the World Bank, and USAID/Pakistan; and documentation maintained at the mission. Audit fieldwork was performed at the USAID/Pakistan mission and the program's offices in Islamabad from January 18 through March 16, 2012.

In planning and performing the audit, the audit team assessed controls used by the mission to manage the program and to ensure adequate oversight of program activities. The audit tested monitoring procedures, record keeping, and control consciousness, among other controls. These controls included maintaining regular contact with the partner organization and reviewing project files.

## Methodology

To answer the audit objective, the audit team interviewed officials at USAID/Pakistan, and the Government of Pakistan to gain an understanding of (1) how beneficiaries were identified, (2) how beneficiaries received payments, (3) how the mission ensures the quality of the data reported by the implementing partner, (4) how the mission monitors payments to beneficiaries, and (5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

In addition, we performed the following audit tests:

- Reviewed the cash transfer grant agreement to determine whether it is the appropriate implementing mechanism for the program.
- Reviewed and tested the procedures established by the mission to monitor and ensure the quality of work of its implementing partner.

- Statistically selected 162 of the 480,000 beneficiaries attributed to USAID/Pakistan's contribution and evaluated documentation of payments and eligibility. This is a statistically representative sample with a 95 percent confidence level, and the results can be projected to the intended population.
- Interviewed officials from the mission, the implementing partner, and the Government of Pakistan to gain their input into all of the above audit tests.
- Reviewed the mission-funded survey and interviewed the firm that conducted it to determine the scope of the work performed as it related to recipients' eligibility.

From our statistical sampling, we believe that our substantive testing was sufficient to support the conclusion that the program's first cash transfer reached the intended beneficiaries.

# MANAGEMENT COMMENTS



**USAID** | **PAKISTAN**  
FROM THE AMERICAN PEOPLE

## MEMORANDUM

Date: May 02, 2012

To: Joseph Farinella  
Director OIG/Pakistan

From: Andrew B. Sisson /s/  
Mission Director USAID/Pakistan

Subject: Management Comments on the Audit of USAID/Pakistan's Benazir Income Support Program (BISP)

Reference: Draft Report No. G-391-12-00X-P dated March 28, 2012

In response to the referenced draft audit report, please find below Mission management comments on the recommendations included therein.

**Recommendation No. 1** We recommend that USAID/Pakistan establish a policy of directing document requests pertaining to Agreement No. 391-012-01 to Pakistan's Economic Affairs Division, requesting the prompt submission of all required information required for the release of the \$75 million for the program.

### **Management comments:**

Mission management concurs with the recommendation. USAID/Pakistan has adopted the practice of directing all document requests pertaining to Agreement No. 391-012-01 simultaneously to BISP and Pakistan's Economic Affairs Division (EAD), and has requested the submission of all information required for the release of \$75 million tranche for BISP. The April 6, 2012 letter relating to the release of the \$75 million is attached as Annex A.

With respect to the findings presented on page 3 of the audit report, the Mission strenuously objects to the assertion that "another potential delay in authorizing the transfer of funds to the program was a senior official's belief that the principal purpose of the program was the disbursement of funds to support the fiscal accounts of the Government of Pakistan." The statement by a USAID/Pakistan senior official referenced above seems to be taken out of context by the OIG. The importance placed on the first objective did not come at the expense of

the second, and did not cause USAID's Program Managers to delay efforts to authorize the release of the second tranche. Rather, the funds have not been released because involved personnel from both the Program Office and the Office of Financial Management have been exercising due diligence over the funds by insisting that the conditions for their drawdown are met. In fact, USAID/Pakistan had intentionally added requirements for the drawdown of the second tranche to the activity agreement because of inadequate reporting by BISP and EAD for the first tranche of USAID's funding, and to ensure Mission's compliance with USAID regulations on reporting.

The statement referenced above reflects the fact that there are two very different objectives of USAID's participation in the BISP program. The first objective (the disbursement of dollars from USAID to the Government of Pakistan (GOP)), to which the referenced statement referred, was achieved. Managing the second objective (the proper and appropriate distribution of the rupees to beneficiaries) remains the primary focus of USAID. Under the budget support mechanism used for this program, there were different requirements for (1) releasing the dollars to the GOP and (2) releasing rupees to BISP. As the then-Program Manager explained to OIG in a June 24, 2010 email (attached as Annex B) "it's important to distinguish the dollar disbursement and the rupee budget support. Each has its own purpose and its own procedures."

Accordingly, the Mission reports that final action has been taken and requests closure of this recommendation upon issuance of the final report.

**Recommendation No. 2 We recommend that USAID/Pakistan establish a plan for periodic follow up with the Economic Affairs Division, and the Benazir Income Support Program to obtain the required financial reports and bank statements.**

**Management comments:**

Mission management concurs with the recommendation. As a result of the Mission's repeated reminders to both EAD and BISP, the Mission has now received all quarterly financial reports. Additionally, during USAID's meeting with EAD on April 2, 2012, EAD telephoned the State Bank of Pakistan, which promised to provide the missing bank statements within the next few days. As of April 18, no further documentation had been received. USAID/Pakistan will continue to follow up with EAD and the Finance Division of the GOP on a regular basis, in both formal and informal settings, until the requisite documentation is received.

Accordingly, the Mission reports that final action has been taken and requests closure of this recommendation upon issuance of the final report.

**Recommendation No. 3 We recommend that USAID/Pakistan develop a plan to confirm on a sample basis that recipients had qualifying scores under the Poverty Scorecard system for the second tranche of \$75 million.**

**Management comments:**

Mission management concurs with the recommendation. The Mission's plan to confirm, on a sample basis, that recipients had qualifying scores under the Poverty Scorecard system for the second tranche of \$75 million is as follows:

4. After disbursement of the Rs. 6,402,750,000 rupees from the second tranche, BISP will share with USAID and/or its contractor the list of beneficiaries attributable to USAID funding.

5. USAID or the contractor will draw a representative sample from the list (sampling methodology to be determined later).
6. USAID or the contractor will then visit the BISP Secretariat to access the records of the individuals on the sample list and verify that all individuals have scorecards with scores under 16.17.

USAID's BISP Program Manager will be responsible for execution of this plan with the support of USAID's Office of Financial Management. The Mission anticipates finishing this action by February 28, 2013.

The Mission notes that since BISP is a GOP program, its accounts are also audited by the Auditor General of Pakistan (AGP), the supreme audit institution of Pakistan. The AGP's financial audit of BISP for the period from September 30, 2009 to March 31, 2011 included tests to check the eligibility of beneficiaries under the Poverty Scorecard system. The AGP report was reviewed and formally accepted by OIG on October 26, 2011.

With respect to the finding on page 5 of the audit report that the contractor did not confirm eligibility of recipients, the Mission is pleased to report that the contractor did indeed confirm that all beneficiaries in the sample had scores below the Poverty Scorecard cutoff level of 16.17, as described in the Addendum to the Monitoring Report issued by VTT on April 9, 2012 (Annex C). This Addendum was produced at the request of USAID/Pakistan's current BISP Program Manager as a result of the OIG's draft audit report.

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