OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/WEST BANK AND GAZA'S PALESTINIAN COMMUNITY ASSISTANCE PROGRAM

AUDIT REPORT NO. 6-294-13-006-P
FEBRUARY 7, 2013

CAIRO, EGYPT

Office of Inspector General

February 7, 2013

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Michael T. Harvey

FROM: Regional Inspector General, Catherine Trujillo /s/

SUBJECT: Audit of USAID/West Bank and Gaza's Palestinian Community Assistance Program (Report No. 6-294-13-006-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them in their entirety in Appendix II.

The final report includes seven recommendations to help strengthen the implementation of USAID/West Bank and Gaza's Palestinian Community Assistance Program. The mission has made management decisions on the seven recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer's representative
COGAT	Coordinator of Government Activities in the Territories
CRS	Catholic Relief Services
FY	fiscal year
IT	information technology
RIG	Regional Inspector General

SUMMARY OF RESULTS

The onset of military operations in Gaza in December 2008, known as Operation Cast Lead, exacerbated desperate conditions for large sections of the population in Gaza. International donors including USAID responded with immediate humanitarian assistance to meet basic needs. However, the ramifications of continuing Israeli economic restrictions and Hamas control in Gaza are still considerable in all parts of daily life—lost agriculture, limited imports, impeded construction, high unemployment, and emotional trauma.

To help Palestinians build a better future through social and economic relief and recovery in Gaza, in September 2010, USAID/West Bank and Gaza awarded a 3-year, $100 million cooperative agreement to Mercy Corps to implement the Palestinian Community Assistance Program. The goal of the program is to promote a multi-sector strategy to help families in Gaza meet their immediate and long-term needs, as well as to contribute to ongoing economic and social recovery. The three major program objectives are to:

1. Address the infrastructure recovery needs of Gazans through tangible improvements in community infrastructure and housing.

2. Support economic recovery and development in Gaza through the creation of income-generating and business development opportunities.

3. Address the social recovery needs of Gazans through tangible improvements in food security, education, health, and psychosocial services.[1]

As of September 30, 2012, USAID had obligated $64 million and disbursed $41 million to the program.

Mercy Corps directly implemented some of the program activities and awarded subgrants to CHF International (CHF), Catholic Relief Services (CRS), American Near East Refugee Aid, Save the Children Federation Inc., CARE International, International Medical Corps, and International Orthodox Christian Charities to implement additional activities.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit to determine whether USAID/West Bank and Gaza's Palestinian Community Assistance Program was achieving its main goal to improve the lives of Palestinians in Gaza through humanitarian and recovery assistance.

The program made some improvement in the lives of Gazans, but fell significantly behind schedule. The program is unlikely to meet its overall goal to improve the lives of 640,000 Gazans by addressing infrastructure, economic, and social recovery needs in the 15 months remaining for implementation.

According to the fiscal year (FY) 2012 annual report (unaudited), the program succeeded at doing the following:

- Rehabilitating 848 homes, exceeding the planned target of 760.

[1] Psychosocial support includes care and support offered by caregivers, family members, friends, neighbors, teachers, health workers, and community members. It is designed to influence both individuals and the social environment in which they live.

- Employing 3,325 individuals through cash for work programs, not quite achieving the planned target of 3,511.

- Providing internship opportunities for 895 youth, compared with a planned target of 927.

- Reaching more than 11,000 children and caregivers through early education activities, achieving 71 percent of the planned target of 15,465.

However, the program struggles to achieve its intended impact in infrastructure and in economic and social recovery to include humanitarian assistance. The stoppage of work caused by funding uncertainty resulting from a congressional hold and vetting delays described in the first finding have hindered achievement of the program's intended results—most dramatically for infrastructure.

- Implementation fell behind schedule (page 4). As a result, the program fell short of its intended effect and results in these areas:

  - Despite plans to have at least ten infrastructure projects completed in the first year, the program had yet to complete one.
  - At the end of the first year, the program had not met a single target on indicators designed to measure business development in Gaza, which is considered critical to overall economic recovery. Since then the program has not reported any significant progress in business development.
  - The program had not provided psychosocial support for children and caregivers or humanitarian assistance to vulnerable households as planned.

- Some program activities did not meet beneficiary needs (page 7). Some of the rehabilitation work on houses was shoddy, and products distributed by the program—such as soaps, detergents, and toothbrushes—were of poor quality. In addition, problems with CRS's process of identifying beneficiaries' eligibility denied some households distributions to which they were entitled.

- Mercy Corps tracked too many performance indicators (page 9). Tracking them strains staff time and funding.

- Reported results were not accurate (page 10). The Mercy Corps monitoring and evaluation system is not effective, resulting in a high risk that errors in performance data will go undetected.

Under this 3-year cooperative agreement, USAID designed a very broad development program, expecting Mercy Corps to achieve ambitious goals across a range of sectors in a short time. This expectation has been challenging for Mercy Corps. Compounding the design complexities is the environment Mercy Corps is working in—an area with an uncertain security situation, restricted access, and political sensitivity in terms of government permits and approvals. Furthermore, because of travel restrictions on American USAID staff entering Gaza, the mission is relying heavily on the implementing partners and has only one local mission staff member monitoring all programs in Gaza. Therefore, implementers responsible for overall program management must monitor and evaluate their own progress.

To improve the effectiveness of the Palestinian Community Assistance Program, the audit recommends that USAID/West Bank and Gaza:

1. Evaluate all planned and ongoing activities to determine their attainability and potential for impact in improving the lives of the largest number of beneficiaries in Gaza, and implement only those activities that are realistically achievable and will likely have the greatest impact (page 7).

2. Require Mercy Corps to implement monitoring procedures to verify the quality of rehabilitation work on houses and of nonfood items to be distributed by subgrantees (page 9).

3. Evaluate the validity of all performance indicators in writing, and require Mercy Corps to report data on those the mission considers most critical to the program outcome and document the results (page 10).

4. Implement a comprehensive monitoring program to track the status and provide oversight of mission activities in Gaza (page 12).

5. Require the agreement officer's representative (AOR) to conduct and document periodic reviews of data in the mission's data tracking system for the Palestinian Community Assistance Program (page 12).

6. Require Mercy Corps to implement a corrective action plan to strengthen internal controls in its data collection, consolidation, verification, and reporting processes (page 12).

7. Require Mercy Corps to define the performance measure and target for each activity indicator in writing and, using the newly defined performance measure, review and correct any erroneous data it previously reported to the mission and document the results (page 12).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 13, and the full text of management comments is in Appendix II.

AUDIT FINDINGS

Program Implementation Fell Behind Schedule

The goal of the Palestinian Community Assistance Program is to improve the lives of 640,000 Gazans by addressing their needs for infrastructure, economic, and social recovery. To meet these ambitious objectives, Mercy Corps is responsible for implementing activities across six sectors: economic growth, education, health, humanitarian assistance, infrastructure, and skill development for youth.

The program has made some improvement in the lives of Palestinians in Gaza, such as rehabilitating conflict-damaged homes, providing employment opportunities through cash-for-work activities, and providing after-school tutoring programs and psychosocial support sessions to youth and caregivers. However, it has fallen significantly behind schedule, diminishing the likelihood that it will meet its overall goal.

Contributing to the delays were issues beyond and within the mission's and implementing partners' control. For example, congressional constraints on funding and vetting delays slowed implementation of activities across all sectors. In August 2011, the U.S. Congress placed a hold on the appropriated funds in support of the Palestinian Authority.[2] The suspension of funding over the ensuing 8 months forced a stoppage of work of all planned program activities. The mission instructed the program to scale back implementation and prioritize activities on the ground.

In addition, complying with Executive Order 13224, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism," delayed the program. Mercy Corps could not vet proposed partners on projects until USAID approved the projects—a lengthy process before implementation. When an anomaly in the process was discovered during implementation, the mission decided (with the approval of USAID/Washington and out of an abundance of caution) to re-vet all ongoing assistance. Re-vetting seriously delayed implementation of planned activities.

As described below, other delays caused Mercy Corps to struggle to implement infrastructure, economic, and social recovery activities.

Infrastructure Recovery. USAID and Mercy Corps planned to complete at least 40 community rehabilitation and development projects throughout Gaza during the 3-year award, including health clinics, women's centers, child-friendly spaces, water and sanitation works, youth centers, and other community facilities. Mercy Corps' partner, CHF, had primary responsibility for rehabilitating or constructing community infrastructure and rehabilitating conflict-damaged homes. CHF planned to complete 20 projects and use subcontractors to complete another 20.

[2] USAID FY 2011 Congressional Notification No. 133, August 18, 2011. In late December 2011, only $40 million in FY 2011 Economic Support Funds was released. The remaining $147 million in FY 2011 funding was released to USAID/West Bank and Gaza for obligation after the Secretary of State interceded in April 2012.

According to its performance monitoring and evaluation plan, Mercy Corps' target was to improve access to municipal services for 60,000 people, with CHF expected to complete ten infrastructure projects in the first year. Mercy Corps and CHF expended time and resources during FY 2011 and most of FY 2012 identifying and designing projects, seeking the approval of the Israeli Coordinator of Government Activities in the Territories (COGAT),[3] and processing vetting requests for proposed activities. Because of delays during the first 21 months, the program will not achieve its intended results. As of July 2012—22 months into this 36-month program—CHF had awarded only five infrastructure subcontracts and had not started even one infrastructure project. Besides the factors cited above, there were other causes for delays.

- *Approvals for bringing goods into Gaza*. The COGAT approval process for all goods entering the Gaza Strip contributed to delays. For example, in one case CHF received COGAT approval in November 2011 for a list of goods submitted in July 2011 to construct a multipurpose hall.

- *Lengthy project review and approval*. In its agreement with Mercy Corps, USAID reserved the right to review and approve any contract or subcontract in excess of $25,000 with a non-U.S. organization, as well as any grant or subgrant to a non-U.S. organization or individual regardless of the dollar value. Mercy Corps did not factor in required time for USAID's review and approval for each of the proposed projects on top of the standard vetting. In one case, the requirement caused a 2-month delay: CHF submitted proposed projects on February 2011, and USAID did not approve them until the end of April 2011.

- *Change in implementation strategy.* The mission changed CHF's implementation strategy from working directly with municipalities to working with civil society organizations. This change resulted in a more complicated and time-consuming process, delaying project selection.

The Government of Israel's requirement that implementers obtain approval to import construction materials is beyond USAID's control. However, the need for a mission official to approve projects and the mission's revision of the strategy for selecting projects were within the control of the mission, Mercy Corps, and CHF and interfered with completing 40 projects over a 3-year period.

Economic Recovery. A second objective was to support economic recovery and development in Gaza through the creation of income-generating and business development opportunities. Because USAID expected Mercy Corps to cover broad areas under this objective, Mercy Corps went beyond supporting beneficiaries with a cash-for-work component. It planned to focus on ways to provide short- and medium-term employment for Gazan youth by developing their skills in areas such as data entry, staffing call centers, data digitization, technical drawing, accounting, and financial services. In the agriculture sector, Mercy Corps planned to identify opportunities for those involved in animal and plant production to increase output, add value, and gain better access to markets in high-potential subsectors. Lastly, Mercy Corps planned to support the development of 400 small and medium-size enterprises through training, capacity building, and business partnership development.

By the end of the first year, the project had not met a single indicator target for business development. In the second year, USAID and Mercy Corps changed some project activities and

[3] According to the Web site of Israel's Ministry of Defense, COGAT (a unit of the ministry) "facilitates the activities of international organizations" involved in projects like those under the program.

indicators because of the congressional hold on the appropriated funds. As of March 31, 2012, Mercy Corps had expended $234,000 to support business development but with limited results. In a memorandum on the business development activities, the mission's AOR gave this negative assessment:

> This component of the program is one of the weakest areas. While the project was able to train some businesses and workers, it fell significantly short of [the] overall target, no business partnerships were established, and very little substantive work was accomplished in promoting private sector development. Training to improve workforce skill levels is proceeding but the portion exclusively focused on youth did not move forward as planned.

The AOR went on to say that complying with antiterrorist vetting requirements had delayed the skill training.[4] In his opinion, the economic recovery goals could be adversely affected if the program cannot revitalize the business development component.

Asked about the missed targets, Mercy Corps officials said they had a hard time recruiting training staff and getting projects approved. The person Mercy Corps chose to be training director turned down the position at the last minute, delaying the recruitment of other training staff. Delays in getting approval for proposed projects hindered program results. To manage around these difficulties, Mercy Corps adjusted the indicators by deleting those showing no progress and modifying others. Even with the adjustments, as of June 30, 2012, Mercy Corps had supported only one professional association with capacity strengthening.

With all these challenges and delays, the mission should reevaluate what is feasible to accomplish within the last 15 months of the award and make critical decisions on how best to implement activities that could have the greatest impact in improving the lives of the Gazan as intended.

Social Recovery. A third objective addressed the social recovery needs of Gazans through tangible improvements in food security, education, health, and psychosocial services. Of the budgeted $17 million for social recovery activities, Mercy Corps proposed enhancing formal and informal education for children and youth by offering tutoring programs, providing materials and other assistance, promoting recovery and resilience by encouraging community engagement in youth sports, and providing psychosocial support for children and caregivers. Mercy Corps also intended to provide humanitarian assistance to the most impoverished families in the Gaza Strip by giving out non-food items.

As of June 30, 2012, 21 months into this 36-month program, the program was not providing either psychosocial support for children and caregivers or humanitarian assistance to vulnerable households as Mercy Corps planned. As a result, the program fell short of its intended results in two specific areas, psychosocial support to children and caregivers and the distribution of humanitarian assistance.

For the psychosocial support area, according to Mercy Corps, vetting organizations providing psychosocial services to caregivers and children caused the major delay in implementing

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[4] Executive Order 13224, signed September 23, 2001, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism," requires USAID missions to vet potential implementing partners to ensure that U.S. assistance is not inadvertently provided to individuals, organizations, or municipalities affiliated with designated foreign terrorist organizations.

activities. As for not making the intended number of humanitarian assistance distributions to the most impoverished families in the Gaza Strip, Mercy Corps' partner, CRS, took longer than expected in assessing needs for the items, establishing the criteria for beneficiary selection, verifying the eligibility of selected beneficiaries, and obtaining approvals.

The program likely will not achieve its overall goal to improve the lives of over 640,000 Gazans by the end of the agreement given the delays, funding uncertainty, and high costs. Implementing program activities in Gaza is expensive. For example, the program's administrative and support costs amounted to more than $4 million per year. Mercy Corps' annual expenditures (unaudited) for FY 2011 and 2012 are presented in Appendix III.

Given the challenges, the cost, and the time remaining on the award, the mission should reevaluate whether the current award design is the appropriate way to achieve the overall goal. To address these issues for the remainder of the agreement, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/West Bank and Gaza evaluate all planned and ongoing program activities to determine their attainability and potential for impact in improving the lives of the largest number of beneficiaries in Gaza and implement only those activities that are achievable and likely to have the greatest impact.*

Some Program Activities Did Not Meet Beneficiaries' Needs

The cooperative agreement and the first-year implementation plan called for rehabilitating houses and distributing humanitarian assistance in the form of nonfood items—for example, solar lanterns, detergent, and toothbrushes. To accomplish these objectives, Mercy Corps awarded subgrants to CHF to rehabilitate houses and to CRS to distribute humanitarian assistance.

RIG/Cairo contracted with a local independent public accounting firm to conduct site visits in Gaza and interview beneficiaries to determine whether CHF and CRS were meeting the beneficiaries' needs. The audit disclosed problems with some of the home rehabilitations and distributed items, as well as problems with how CRS selected eligible beneficiaries. These issues are described below.

Rehabilitated Homes. CHF planned to complete 400 major housing rehabilitation projects. Because of the delays in getting approval from COGAT to bring dual-use goods into Gaza (goods seen as having both civilian and military uses) and because of the congressional hold on funds, CHF requested and received mission's approval to refocus the residential rehabilitation program on the provision and installation of window frames, window glass, and doors. Because less rehabilitation work was required, CHF was able to exceed its target of 100 conflict-damaged homes during the first year.

Yet meeting the quantitative targets did not translate into qualitative success. The audit firm contracted by RIG/Cairo interviewed 29 of the 5,166 beneficiaries reported by Mercy Corps. The interviews, conducted in the beneficiaries' homes, included questions about the quality of work performed and whether the work met beneficiaries' basic housing needs. Six of 29 beneficiaries reported not being satisfied with the work:

- Two beneficiaries reported that the contractor did not properly install the windows, leaving big gaps between the window frames and the wall. The photo below shows an example of the poor installation.

- One beneficiary reported that water leaked through the walls after the construction was completed.

- One beneficiary reported that his house was not livable after the rehabilitation.

- Two beneficiaries reported delays of up to a year waiting for the contractor to rehabilitate their houses.

Installed window has large gaps between the window frame and wall. (Photo by audit firm contracted by RIG/Cairo)

Mercy Corps was not aware of the poor window installation because it did not provide sufficient oversight during rehabilitation. In addition, CHF, the subgrantee, subcontracted the installation work and accepted the final completed projects without inspecting the work performed. As a result, the rehabilitation did not meet the needs of the beneficiaries.

Distributions of Nonfood Items. CRS was responsible for distributing nonfood items to female-headed households and households with disabled family members. The items were supposed to meet the needs of 5,000 households. The audit firm contracted by RIG/Cairo interviewed 14 judgmentally selected beneficiaries to verify whether the distribution had met their needs, and all 14 responded negatively. Beneficiaries complained that the solar lanterns distributed did not work, the detergent did not clean properly, and toothbrushes distributed were of such poor quality they were unusable.

Other beneficiaries complained that their distributions stopped because CRS had the wrong information concerning their eligibility. After the first distribution, CRS was supposed to visit beneficiaries to determine their eligibility for receiving additional assistance. Of the 14 beneficiaries interviewed, 4 said CRS did not contact them for a second visit. CRS's records showed these beneficiaries were ineligible for further distributions because they were either working or owned a business. Although this was not the case, the four received no additional items.

When we notified CRS of these complaints, CRS officials said subsequent distributions would include items of better quality. However, officials could not explain why CRS had incorrect information on the status of the four beneficiaries.

Mercy Corps could have prevented the above issues had it done a better job of monitoring program activities implemented by its subgrantees. Effective monitoring would have confirmed whether the housing rehabilitation and nonfood items met the needs of the beneficiaries, avoiding the waste of funds. To address these issues, we make the following recommendation.

> ***Recommendation 2.*** *We recommend that USAID/West Bank and Gaza require Mercy Corps to implement monitoring procedures to verify the quality of completed housing rehabilitation work done and of nonfood items to be distributed by its subgrantees.*

Mercy Corps Tracked Too Many Performance Indicators

USAID uses performance indicators to track progress toward objectives. According to Automated Directives System (ADS) 203.3.4.2,[5] USAID's development objective teams should have as many indicators in their performance management plan as are necessary and cost-effective for managing and reporting purposes. The guidance suggests that in most cases two or three indicators per result should be sufficient to assess performance. In rare instances, when the team narrowly defines a result, a single indicator may be adequate. Additionally, too many indicators may be worse than too few, because of the cost of collecting, analyzing, reporting, and using data on all performance indicators.

USAID identified three program recovery objectives: infrastructure recovery, economic recovery, and social recovery. As illustrated in the table below, under these objectives USAID formulated 11 intermediate objectives that Mercy Corps was responsible for managing. Mercy Corps designed 41 program performance indicators for FY 2011 to measure and report the results of its activities implemented under these 11 intermediate objectives. The USAID mission, however, reports on only 12 of the 41 indicators to USAID/Washington.

Program and Intermediate Objectives

Program Objectives		
Infrastructure Recovery	Economic Recovery	Social Recovery
Intermediate Objectives		
Community infrastructure rehabilitation	Agribusiness development	After school and accelerated learning
Rehabilitation of houses	Cash for work	Sports-based youth development
	Technical skills training and professional development	Psychosocial support to children and caregivers
	Business development	Distribution of humanitarian assistance
		Health supplies

[5] The version of ADS quoted was in effect at the time of the audit. ADS 203.3.4.2 was revised November 2, 2012.

Managing data on 41 performance indicators is labor-intensive and costly. For example, Mercy Corps has been consolidating data for each of 317 program activities taking place in Gaza and capturing the results by type of activity—for example, non-formal education, grant assistance to households, and enhancing food security. Within types, Mercy Corps has managed data on 168 activity indicators and reported results on 61 of those. Then, Mercy Corps has sorted and consolidated results reported on each activity indicator to report program results under the appropriate performance indicators. The Mercy Corps official in charge of the reporting process said the level of detailed information required for each activity indicator was overwhelming, and his team found it difficult to keep up with the reporting requirements. This problem has affected data quality: results reported to the mission contained errors (page 10).

Mercy Corps expanded the number of indicators to accommodate frequent USAID/Washington requests for detailed program information because of the politically sensitive nature of the program. Still, this level of reporting is an inefficient use of program resources. The AOR also expressed concerns about the large number of new indicators that Mercy Corps was reporting on from its subgrantees and asked Mercy Corps to focus on indicators with larger impact. Therefore, we recommend the following.

> ***Recommendation 3.*** *We recommend that USAID/West Bank and Gaza evaluate the validity of each of the program activity and performance indicators in writing and require Mercy Corps to manage and report data on those considered most critical to tracking program outcome and document the results.*

Reported Results Were Not Accurate

According to ADS 203.3.11.1, performance data have to meet five quality standards—validity, integrity, precision, reliability, and timeliness. These standards mean that data should clearly represent the intended result, be collected in a way that minimizes transcription error and manipulation, be precise, reflect consistent collection methodology, and be current.

However, data reported for the program were not accurate. A review of 25 indicators for FY 2011 disclosed discrepancies in results reported (page 25). Indicator data stored in Mercy Corps' Web-based SharePoint system did not agree with what Mercy Corps reported to USAID in its annual reports or with what the mission entered into its system. Because mission staff could not travel into Gaza, RIG/Cairo contracted with an audit firm to conduct data verification, field visits, and interviews with beneficiaries and implementing partners in Gaza. The firm tested FY 2011 data in the mission's data tracking system on the 25 performance indicators against the source documents (housed in Mercy Corps' and subrecipients' offices in Gaza), and reported discrepancies in 9. Appendix IV includes the results of the contracted audit firm's tests.

The contracted audit also disclosed that CHF was not following the established definitions in reporting results. CHF was not properly reporting the number of beneficiaries trained to improve food security through poultry production. According to the approved implementation plan for the first year, CHF planned to teach 300 beneficiaries; however, CHF reported the number of training sessions provided instead of the number of beneficiaries.

Furthermore, Mercy Corps did not compute results consistently, resulting in unreliable data. The percentage of completion reported for cash-for-work activities and for information technology (IT) training activities at five sites did not reflect actual progress. According to Mercy

Corps, for three cash-for-work activities, it measured the percentage of completion by calculating the actual months passed over the planned duration of the activities. Mercy Corps did not use the same methodology for the other two activities and could not clearly explain how it calculated results for those. Furthermore, when the audit firm got different results using Mercy Corps' methodology for the three cash-for-work activities, Mercy Corps could not adequately explain how it had arrived at its results. Appendix V contains the auditors' results.

The causes for reporting inaccurate data are discussed in detail below.

- *Lack of a comprehensive monitoring and evaluation system.* Mercy Corps' proposal to implement the program outlined the organization's plan for monitoring and evaluation. Mercy Corps proposed a monitoring and evaluation system that would capture the most up-to-date data and track the progress of activities; document beneficiary selection; ensure coordination among partners, subgrantees, and other implementers; and provide information for evaluating the impact of activities. The Web-based system, as proposed, satisfied USAID's performance and monitoring evaluation requirements. However, Mercy Corps did not implement the proposed system. Instead, it relied on a cumbersome process that was partly Web-based and partly manual. Every activity generates performance data, and as of March 2012, Mercy Corps was required to monitor and report on more than 130 activities. By not implementing the proposed system and relying on manual processes to summarize so much data, Mercy Corps increased the likelihood of errors.

- *Lack of data verification.* Both the Mission and implementing partner lack adequate controls for verifying reported results. Because Americans on the mission's staff are not permitted to travel into Gaza, the AOR must rely on only one local Mission staff member located in Gaza to conduct site visits. Another source of risk is that, before compiling the data submitted by its partners and reporting them to the mission, Mercy Corps did not verify the data. Independent auditors contracted to conduct field visits for RIG/Cairo confirmed that before February 2012, Mercy Corps neither monitored the partners' data collection procedures nor verified the accuracy of the data. This lapse caused the reporting errors relating to training sessions (counting training sessions instead of the number of trainees). According to the monitoring and evaluation official, the team does not have sufficient time or staff resources to perform any testing to verify subgrantees' data and still meet USAID's reporting deadlines.

- *Poor communication.* A third contributing factor was a lack of communication with the mission. According to Mercy Corps, it did not notify the mission when it identified and corrected errors. Not knowing about changes made to reported data, the AOR would have been unaware that the mission's data tracking system did not have the most updated and accurate information.

- *Excessive amount of data.* Managing and reporting an overwhelming number of indicators increased the risk of human error. Moreover, the sheer amount of data collection occupied so much time and effort that monitoring took a backseat. In FY 2012, the number of reporting discrepancies increased because the number of indicators increased with the start-up of subgrantee activities.

- *Poor indicator definitions*. Mercy Corps did not clearly define the performance measures for some program activities and did not use a consistent methodology in computing results. Mercy Corps officials acknowledged that the organization's method of determining the

percentage of completion for the cash-for-work activity described above did not accurately report activity progress. Officials agreed to adjust how they calculated progress.

USAID should be able to report how it uses foreign assistance funding and its impact. Such reporting is not possible without reliable information. To help the mission conduct an effective impact evaluation of the project, we make the following recommendations.

Recommendation 4. *We recommend that USAID/West Bank and Gaza implement a comprehensive monitoring program to track the status and provide oversight of mission activities in Gaza.*

Recommendation 5. *We recommend that USAID/West Bank and Gaza require the agreement officer's representative to conduct and document periodic reviews of data on the Palestinian Community Assistance Program in the mission's data tracking system.*

Recommendation 6. *We recommend that USAID/West Bank and Gaza require Mercy Corps to implement a corrective action plan to strengthen internal controls in its data collection, consolidation, verification, and reporting processes.*

Recommendation 7. *We recommend that USAID/West Bank and Gaza require Mercy Corps to (1) define the performance measure and target for each activity indicator in writing and, using the newly defined performance measure, (2) review and correct any erroneous data it previously reported to the mission and document the results.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft audit report, USAID/West Bank and Gaza agreed with all seven recommendations. Summarized below are the comments and the audit team's evaluation of them.

Recommendation 1. Mission officials agreed to evaluate all planned and ongoing program activities to determine their potential for improving the lives of the largest number of beneficiaries in Gaza and to implement only those activities likely to have the greatest impact. The mission plans to complete the review and implementation by March 15, 2013. We acknowledge the mission's management decision on Recommendation 1.

Recommendation 2. USAID/West Bank and Gaza officials indicated they have informed Mercy Corps in writing of its responsibility to improve its monitoring procedures to verify the quality of completed housing rehabilitation work done and of nonfood items to be distributed by its subgrantees. The mission expected Mercy Corps to complete its corrective actions by April 30, 2013. We acknowledge the mission's management decision on Recommendation 2.

Recommendation 3. Mission officials agreed to evaluate the validity of each of the program activity and performance indicators in writing and to require Mercy Corps both to manage and report on those considered most critical to tracking program outcome and to document the results. The mission has already begun its corrective actions and plans to complete the process by April 30, 2013. We acknowledge the mission's management decision on Recommendation 3.

Recommendation 4. USAID/West Bank and Gaza officials agreed to implement a comprehensive monitoring program of mission activities in Gaza. The mission plans to complete the corrective actions by March 1, 2013. We acknowledge the mission's management decision on Recommendation 4.

Recommendation 5. Mission officials said that the mission already requires all AORs to verify project data submitted quarterly by implementing partners to the geographic management information system. To strengthen the existing review process, the mission will deploy a new geographic management information system that will require an additional level of review/verification by the AOR to verify the data. The mission intends to complete the corrective action by March 1, 2013. We acknowledge the mission's management decision on Recommendation 5.

Recommendation 6. USAID/West Bank and Gaza officials agreed to require Mercy Corps to implement a corrective action plan to strengthen internal controls over data collection, consolidation, verification, and reporting. The mission will also use the services of its monitoring contractor to review periodically and confirm that Mercy Corps and its subpartners are implementing internal controls over performance monitoring and reporting and collecting documentation in the field that supports data reported. The mission plans to complete the actions by April 30, 2013. We acknowledge the mission's management decision on Recommendation 6.

Recommendation 7. Mission officials agreed to require Mercy Corps to develop a revised performance management plan that includes modifications to the program, an appropriate and streamlined number of newly defined performance indicators, and targets. Mercy Corps will use these revised performance measures to review and correct any erroneous data it previously reported to the mission and document the results. The mission intends to complete these actions by April 30, 2013. We acknowledge the mission's management decision on Recommendation 7.

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/West Bank and Gaza's Palestinian Community Assistance Program was achieving its main goal to improve the lives of Palestinians in Gaza through humanitarian and recovery assistance. The mission awarded Mercy Corps a 3-year cooperative agreement for $100 million on September 30, 2010. As of September 30, 2012, USAID had obligated $64 million and disbursed $41 million. Because this was a performance audit, looking at project implementation rather than specific financial transactions, the audit team did not audit a specific portion of the $41 million in disbursements.

The audit covered the period from program inception on September 30, 2010, to September 30, 2012. In planning and performing the audit, we assessed management controls related to documentation and data verification; reporting; supervisory and management review of program processes and activities; the program's performance monitoring plan; and establishment and review of performance measures and indicators. Controls reviewed included but were not limited to the program's performance management plan, the annual work plan, data quality assessments, AOR files, quarterly and annual reports, and Mercy Corps' cooperative agreement, including modifications.

We conducted audit fieldwork at USAID/West Bank and Gaza, in Tel Aviv, and at Mercy Corps' office in Jerusalem. RIG/Cairo also contracted with a local independent audit firm under an agreed upon procedures engagement to conduct site visits and interviews in Gaza and report on the results from March 23 to October 2, 2012.

Methodology

To answer the audit objective, we first identified the program's main goals and significant program risks. We met with key personnel at USAID/West Bank and Gaza and Mercy Corps. We reviewed relevant documentation provided by USAID/West Bank and Gaza and Mercy Corps. We also reviewed the terms of the agreement and applicable policies and procedures. We gained an understanding of the program design and of how USAID planned to monitor and measure the results.

We reviewed USAID/West Bank and Gaza's and Mercy Corps' compliance with Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten To Commit, or Support Terrorism," and with USAID/West Bank and Gaza Mission Order No. 21, "Anti-Terrorism Procedures" through sample testing. Our antiterrorism compliance testing included reviews of relevant documentation, such as USAID/West Bank and Gaza's agreement with Mercy Corps and eligibility notifications for trainees, subawardees, and grantees. We tested a sample of subcontracts, grantees, and individuals to ensure that USAID/West Bank and

Gaza vetted institutions, trainees, and key subcontractor personnel to ensure that they met the antiterrorism criteria. We also interviewed the USAID/West Bank and Gaza vetting specialist and the Mercy Corps vetting specialist.

To verify reported results, we tested all indicators tracked in USAID/West Bank and Gaza's reporting system for the project. We traced reported results for all indicators to the implementing partner's relevant source documents for FY 2011 and first two quarters of FY 2012, including monthly tracking spreadsheets from the partner and subgrantees, beneficiary lists, housing lists, and surveys. Reported results for 18 of 25 indicators were not considered accurate.

During site visits, the local audit firm verified the existence of reported deliverables, verified that project sites complied with USAID branding requirements, and observed and discussed the quality of the construction and equipment. Contract auditors interviewed beneficiaries to gain an understanding of whether the program was meeting their needs and of their experiences in working with the implementing partner and USAID. They also ascertained whether beneficiaries were aware of the source of funding for the projects. The auditors further verified the reported results submitted by the implementing partner and its subgrantees against the source documentation kept in their offices in Gaza and confirmed that 9 of the 25 indicators were inaccurately reported.

MANAGEMENT COMMENTS

USAID | WEST BANK/GAZA
FROM THE AMERICAN PEOPLE

UNCLASSIFIED

Date: January 24, 2013

To: Regional Inspector General, Cairo, Catherine Trujillo

From: Mission Director, USAID West Bank and Gaza, Michael T. Harvey /s/

Through: Acting Deputy Mission Director, Bruce Gelband /s/

Subject: Mission's Comments on the Draft Performance Audit Report of the Palestinian Community Assistance Program.

Draft Audit Report No. 6-294-13-XXX-P dated December 26, 2012

Reference: Duncan/Harvey memorandum dated December 26, 2012

USAID West Bank and Gaza (USAID/WBG) wishes to thank the Regional Inspector General/Cairo (RIG/Cairo) for conducting the referenced performance audit of the Palestinian Community Assistance Program (PCAP). The subject draft audit report has been thoroughly reviewed by the Democracy and Governance Office in collaboration with other offices of the Mission.

The Mission appreciates this opportunity to comment on the draft audit report and the recommendations therein as the RIG prepares the final report. The following are the Mission's overall comments on the report and responses to each of the seven recommendations.

The PCAP program was designed primarily as a U.S. Government response to the humanitarian crisis in Gaza during the winter of 2008/2009. The program was wide in scope given the depth and breadth of the humanitarian needs at the time. The program has achieved impressive results despite a number of significant challenges in the overarching operational environment and the Mission's own funding situation.

USAID awarded the PCAP cooperative agreement to Mercy Corps on September 30, 2010 with FY 2010 funds. Over the next several months, the program completed its launch activities and finalized awards with sub-partners. This took longer than originally planned; however, the program was delivering the full range of planned assistance in Gaza by summer 2011.

By the summer of 2011, the Mission was expecting to receive its FY 2011 funding. However, the congressional notification for FY 2011 ESF funds for West Bank and Gaza was put on hold by three Congressional committees/sub-committees. Without the second year of funding, PCAP was forced to demobilize its assistance in Gaza as the Mission awaited FY 2012 funding. As was the case with most USAID-funded projects in the WBG portfolio, the Mission instructed PCAP to scale back implementation and prioritize existing interventions. For example, the PCAP Assistance Officer's Representative (AOR) directed PCAP to stop implementation of community infrastructure activities and Non Food Item (NFI) distributions and instead focus funding on higher priority/shorter term activities. The PCAP demobilization plan was approved by the AOR at the end of October 2011 and this plan guided the project until the end of April 2012, at which point the process of rebuilding the delivery capacity of PCAP started.

In addition to the demobilization process, PCAP experienced lengthy delays in receipt of vetting clearances as a result of revised protocols instituted in December 2011.

Despite these challenges, Mercy Corps and its partners met or exceeded many of the revised FY 2012 targets for the program. The lives of more than 269,000 individuals were positively affected as a result of the Program's interventions in Year 2 (despite the lack of funding for the majority of the FY), including 133,999 women and 135,216 men. The Mission continues to work closely with Mercy Corps to strengthen implementation and monitoring of the PCAP program. In addition, the Mission initiated a mid-term evaluation of the PCAP program which was completed in September 2012 and identified opportunities to strengthen the project in key areas. The mid-term evaluation and the subject audit have provided the Mission with valuable insights into ways the project can be improved to help Palestinians build a better future through social and economic relief and recovery in Gaza.

Recommendation No. 1:

We recommend that USAID/West Bank and Gaza evaluate all planned and ongoing program activities to determine their achievability and potential for impact in improving the lives of the largest number of beneficiaries in Gaza and implement only those activities that are achievable and likely to have the greatest impact.

Response:
From November to December 2012, USAID/WBG completed an intensive, comprehensive review of PCAP's third Annual Implementation Plan (AIP) which includes all of the activities proposed for completion prior to September 30, 2013. USAID/WBG's review of the AIP included discussions with each of USAID/WBG technical offices, the Program and Project Development Office, and the Office of Contracts Management to evaluate the achievability and potential for the greatest impact of each proposed PCAP activity. During the review, USAID/WBG also took into consideration the results of the PCAP mid-term evaluation and draft RIG audit recommendations. The PCAP AOR will send written comments which summarize Mission discussions and directives on the AIP to Mercy Corps by January 31, 2013.

As a result of the RIG audit findings and in line with the larger USAID strategic discussion and Mission assessment process, significant reductions in the breadth of the PCAP implementation

plan have already been made. For example, on December 7, 2012, the PCAP AOR and Mercy Corps agreed that Mercy Corps would cease all planned residential rehabilitation. On January 11, 2013, the PCAP AOR and Mercy Corps agreed to cease all community infrastructure activities identified in the third year AIP.

Based on Mercy Corps' responses and subsequent discussions with the Mission, further revisions to programming may be required to ensure that only those activities that are achievable and likely to have the greatest impact are implemented. [*Note: to date, USAID/WBG has not yet received FY 2012 funding and as such, many of the third year AIP activities for PCAP are on hold until the planned FY 2012 incremental funding is received*.] If discussions with Mercy Corps are completed as planned and the operational environment remains unchanged, the PCAP AOR expects to provide final approval of the AIP by March 15, 2013, at which point the Mission's corrective action to review all planned and ongoing activities to determine their achievability and potential for impact in improving the lives of the largest number of beneficiaries in Gaza will be complete.

Recommendation No. 2:

We recommend that USAID/West Bank and Gaza require Mercy Corps to implement monitoring procedures to verify the quality of completed housing rehabilitation work done and of nonfood items to be distributed by its subgrantees.

Response:
On January 14, 2013, the PCAP AOR informed Mercy Corps in writing of its responsibility to improve its own monitoring procedures to verify the quality of completed housing rehabilitation work done and of nonfood items to be distributed by its sub-grantees.

In order to address weaknesses in its monitoring and evaluation (M&E) systems, Mercy Corps has developed new procedures to improve its ability to collect, verify, and report information. USAID/WBG is scheduling an internal review of Mercy Corps' M&E processes and procedures to be completed by February 15, 2013. Based on the results of this review, Mercy Corps will take the necessary actions to strengthen their internal controls in this area and to address any weaknesses found. The corrective action and a timeline for addressing weaknesses will be agreed to with Mercy Corps. Final action by Mercy Corps is expected to be completed by April 30, 2013.

For additional information regarding the actions the Mission is taking to improve monitoring of Gaza projects, see the response to recommendation number four.

Recommendation No. 3:

We recommend that USAID/West Bank and Gaza evaluate the validity of each of the program activity and performance indicators in writing and require Mercy Corps to manage and report data on those considered most critical to tracking program outcome and document the results.

Response:

In addition to its review of the third year AIP, the PCAP AOR worked with Mercy Corps between September-December 2012 to redefine the performance management plan (PMP) to reflect modifications to the program and select appropriate project and performance indicators. The overall number of indicators has been streamlined as well. To-date, the PCAP AOR and Mercy Corps have reduced the number of program and performance indicators from 63 to 50 (excluding disaggregation), making the management and tracking of indicator reporting significantly more focused.

Further evaluation and review of the validity of each program and performance indicator will take place following the approval of the third year AIP which is expected, as stated above, in mid-March 2013. This evaluation and review will be documented in writing as part of the approval of a revised year three PMP which will correspond to the year three AIP. As discussed above, the final AIP will reflect only those planned and ongoing activities that will achieve maximum impact in improving the lives of the largest number of beneficiaries in Gaza, should operational and security conditions remain unchanged.

Given the changes made to the AIP in the past two months (e.g., the cancellation of all planned residential rehabilitation and community infrastructure activities) and the discussions underway about the remainder of the activities proposed in the year three AIP, it is likely that the number of program and performance indicators will be further reduced prior to the final approval of the PMP. The Mission's corrective actions on this recommendation will be completed by April 30, 2013.

Recommendation No. 4:

We recommend that USAID/West Bank and Gaza implement a comprehensive monitoring program to track the status and provide oversight of mission activities in Gaza.

Response:
In the past year, Mission management has focused attention and Mission resources on strengthening internal controls with a focus on project monitoring systems to ensure that data is accurately gathered, reviewed, and reported for all USAID/WBG projects. The USAID/WBG Program and Project Development Office created a Monitoring and Evaluation Team which is developing the Mission's expertise and experience in this critical area. The Mission supports a comprehensive monitoring program for all USAID-funded projects in the West Bank and Gaza which includes regular reviews of reporting documentation provided by implementing partners (including video and photographic material), data quality assessments, annual portfolio reviews, and regular consultation with partners. The USAID/WBG Monitoring and Evaluation Team has provided tools and training for Mission CORs/AORs to improve their skills in monitoring project activities in line with Agency and Mission standards.

Due to the unique operational environment in Gaza, the monitoring and evaluation team have been working with the CORs/AORs that manage activities in Gaza to strengthen the monitoring processes employed for Gaza activities. This includes the development of quarterly monitoring plans, the completion of site visits and spot checks, and the requirements for periodic reporting (e.g. the quarterly reporting for the USAID Geographic Management Information System –

Geo-MIS). As a result of travel restrictions to Gaza for those under Chief of Mission authority, USAID/WBG also relied heavily on the Mission's Gaza Monitoring Specialist during the audited period to conduct regular site visits, review monitoring systems, and meet with beneficiaries to review achievement of results and verify partners' reporting of those results.

As described in their delegation of authority letter, project CORs/AORs are responsible for monitoring project activities. PCAP monitoring includes the periodic review of project data reported by Mercy Corps, enhancements to USAID/WBG's geospatial reporting system (Geo-MIS), utilizing the USAID Gaza Monitoring Specialist to monitor activities in Gaza, and reviewing Mercy Corps' internal control procedures for data collection, verification, and reporting. The Mission requires the PCAP program's AOR to verify data submitted by Mercy Corps into the Geo-MIS reporting system on a quarterly basis.

To strengthen this review process, in February 2013, a new Geo-MIS system will be deployed in the Mission which will require an additional level of review/verification by CORs/AORs to ensure the accuracy of data. This new data verification process requires that the AOR review and electronically verify that the data submitted by implementing partners is accurate. As part of this review process, AORs are expected to verify, to the extent practicable, that activities and data reported by implementing partners is accurate. Like other Mission projects, Mercy Corps and the PCAP AOR will have the benefit of this improved project reporting, review, and verification process.

On January 3, 2013, USAID/WBG initiated a new monitoring mechanism to provide additional monitoring services for USAID-funded projects in Gaza. With this new mechanism in place, USAID/WBG will confirm the reliability and effectiveness of the Gaza-based implementing partners' internal controls over their performance monitoring and reporting systems; confirm the accuracy of the implementation data reported by each implementing partner into Geo-MIS; confirm the compliance and quality of implementing partners' internal controls over performance monitoring and reporting systems; and collect documentation in the field that supports data reported to USAID/WBG. The work of independent third-party monitors provides USAID/WBG with another method of verifying that the project implementation progress and data prepared and reported by implementing partners is accurate.

By implementing the actions detailed above, USAID/WBG is confident that PCAP's reported data will be gathered, reviewed, and reported in a manner that yields accurate and reliable results. The corrective actions for this recommendation will be completed by March 1, 2013.

Recommendation No. 5:

We recommend that USAID/West Bank and Gaza require the agreement officer's representative to conduct and document periodic reviews of data on the Palestinian Community Assistance Program in the mission data tracking system.

Response:
USAID/WBG already requires all Mission CORs/AORs to verify project data submitted by implementing partners to the Geo-MIS system on a quarterly basis. By checking this

information in GEO-MIS, the CORs/AORs verify that the activities described in GEO-MIS are part of the approved AIP, are accurate, and are in compliance with all USAID rules and regulations. Given the lack of access of USAID staff to Gaza, the AOR's ability to verify that all activity and data reported in GEO-MIS is accurate is extremely difficult. The AOR employs a variety of other means to verify data, to the extent possible, including review of semi-monthly partner reports, review of Mercy Corps' monthly monitoring reports, and coordination of monitoring visits of PCAP activities by the Mission's monitoring specialist (and now the Gaza monitoring mechanism). The results of these reviews and monitoring efforts are discussed with Mercy Corps in bi-monthly meetings and any requests for corrective actions are provided to them (with actions to be addressed in the following bi-monthly meeting).

All USAD/WBG CORs/AORs receive automatic reminders 10 days after the end of a fiscal quarter reminding them to verify the information in Geo-MIS. To strengthen this review process, in February 2013, a new Geo-MIS system will be deployed in the Mission which will require an additional level of review/verification by CORs/AORs to ensure the accuracy of data. This additional data verification process requires that the AOR review and electronically verify that the data submitted by implementing partners is accurate. As part of this review process, AORs are expected to verify, to the extent practicable, that activities and data reported by implementing partners is accurate. Like other Mission projects, Mercy Corps and the PCAP AOR will be subject to this improved project reporting, review, and verification process.

The Mission's corrective actions on this recommendation will be completed by March 1, 2013.

Recommendation No. 6:

We recommend that USAID/West Bank and Gaza require Mercy Corps to implement a corrective action plan to strengthen internal controls in its data collection, consolidation, verification, and reporting processes.

Response:
USAID/WBG and Mercy Corps have taken corrective actions already to strengthen Mercy Corps' internal controls in its data collection, consolidation, verification, and reporting processes. To date, and based on initial discrepancies found during the RIG audit, Mercy Corps re-organized their M&E unit and developed new monitoring and reporting tools and procedures, including an online reporting database for PCAP. According to Mercy Corps, the online tool resolves many of the shortcomings of the system. The Mission will conduct spot-checks of the monitoring system to gauge its effectiveness in resolving identified shortcomings. Mercy Corps' M&E unit has also been restructured and expanded to (a) ensure adequate staff capacity exists to handle the monitoring and reporting tasks required of a program of this size and (b) to establish a segregation of duties, providing for multiple layers of review and internal controls for complied and reported data, thus ensuring greater accuracy.

Mercy Corps also decentralized Geo-MIS data entry by transferring reporting responsibility to partners. This does not relieve Mercy Corps of their responsibility to regularly verify and check the data entered into Geo-MIS by the sub-partners; however, it provides the sub-partners with the opportunity to submit first-hand information on their respective programs into GEO-MIS—

thereby reducing the likelihood of data entry mistakes and enabling Mercy Corps staff to focus on other monitoring and quality assurance duties.

To support the development of PCAP monitoring, the USAID Monitoring and Evaluation team conducted a series of trainings for Mercy Corps and its PCAP sub-partners in the last year. In March 2012, USAID/WBG provided PCAP implementing sub-partners with training on Performance Reporting including how to best report on program implementation and significant milestones accomplishments. In June 2012, USAID/WBG provided Mercy Corps and its sub-partners Data Quality Assessment training. In September 2012, USAID/WBG provided Mercy Corps' M&E Director with on-line training using USAID Adobe Connect on how best to utilize Geo-MIS for reporting and monitoring purposes. Based on these Mission-provided trainings, Mercy Corps conducted training for its sub-partners on how to best utilize Geo-MIS. In November 2012, USAID conducted a follow-up training for the Mercy Corps' M&E Director on how to best revise the data imported into Geo-MIS and how to monitor the implementing sub-partners' reporting, conduct quality control checks and identify any gaps in the reported information.

The PCAP AOR will continue to monitor Mercy Corps' use, and the effectiveness of, the new systems that Mercy Corps has established under PCAP. The PCAP AOR and the PPDO M&E Unit will hold regular meetings with Mercy Corps to review its systems and spot-check data collected by the new system. USAID/WBG will also use the services of its monitoring contractor to periodically review and confirm the compliance and quality of Mercy Corps', and its sub-partners, internal controls over performance monitoring and reporting systems and collect documentation in the field that supports data reported to USAID/WBG. The Mission's corrective actions on this recommendation will be completed by April 30, 2013.

Recommendation No. 7:

We recommend that USAID/West Bank and Gaza require Mercy Corps to (1) define the performance measure and target for each activity indicator in writing, and (2) using the newly defined performance measure, review and correct any erroneous data it previously reported to the mission and document the results.

Response:
In finalizing the PCAP program's third year implementation plan, the Mission reviewed and redefined the strategic direction of the PCAP program. A revised performance management plan (PMP) will be developed and approved that includes modifications to the program, and a selection of appropriate and a streamlined number of performance, indicators and targets reflecting the third year implementation plan. The approval of the revised PMP will document USAID/WBG's acceptance of the performance measures and targets for each activity indicator. USAID/WBG will require Mercy Corps to use these newly defined performance measures to review and correct any erroneous data it previously reported to the mission and document the results. USAID/WBG will also use the services of its monitoring contractor to collect documentation in the field that supports data reported to USAID/WBG. The Mission's corrective actions on this recommendation will be completed by April 30, 2013.

Program Expenditure Summary (Unaudited)

	Expenditures		
Cost Category	**FY 2011**	**FY 2012**	**Total**
Contractual/Program Implementation	9,528,743	20,412,098	29,940,841
Administrative & Support			
Personnel	1,676,421	2,267,621	3,944,042
Fringe Benefits	701,274	800,347	1,501,621
Travel	116,943	80,365	197,308
Equipment	31,138	44,156	75,294
Supplies	143,647	27,834	171,481
Other Charges	429,195	453,929	883,124
Indirect Charges	912,478	1,416,478	2,328,956
Subtotal	4,011,096	5,090,730	9,101,826
Total	**13,539,839**	**25,502,828**	**39,042,667***

* Rounded

Results of Testing of Year 1 Reported Data

Number	Performance Indicator Code	Performance Indicator	Target for FY 2011	Reported Results for FY 2011	Audited Results
1	-	Percentage of people reporting improved basic infrastructure in target communities	60	Not Implemented	Not Implemented
2	3.3.3.9a	No. of female-headed household benefiting from U.S. Government (USG)-supported social assistance programming	2,464	No Data	1,294
3	3.3.3.9b	Food insecure benefiting from USG-supported social assistance programming	125,187	82,386	82,386
4	3.3.3.9c	Number of men benefiting from USG-supported social assistance programming	104,110	50,061	50,061
5	3.3.3.9d	Number of women benefiting from USG-supported social assistance programming	10,114	40,212	40,212
6	3.3.3.9e	Other targeted vulnerable people benefiting from USG-supported social assistance programming	30,000	7,025	7,025
7	2.2.1	No. of people employed in short-term jobs from USG-supported social assistance programming.	2,000	2,201	2,203
8	2.2.2	Person-days of employment generated	89,700	87,151	87,375
9	-	Percent change in the scores of learning skills test amongst trainees of E content and open source training	60%	Not Implemented	Not Implemented
10	2.3.5	No. of youths benefiting from internship opportunities	600	942	942
11	3.1.1	Percentage change amongst students in the learning test scores of math, Arabic and English subjects	50%	94.70%	94.70%
12	3.2	Percentage of children showing improvements in IT, Management and Leadership (Accelerated Learning for Excellence)	60%	70.70%	70.70%
13	3.3	Percent of participants who demonstrated increased resilience as a result of participation in sport and game centered activities	60%	100%	83.30%
14	3.1.2	No. of service providers trained who serve vulnerable people	100	136	136
15	3.1.3	No. of courses offered	6	6	6

Number	Performance Indicator Code	Performance Indicator	Target for FY 2011	Reported Results for FY 2011	Audited Results
16	3.2.1	No. of children / youths participating in sports and group activities	440	235	236
17	3.3.1	No. of beneficiary children participating in Community-Based Organization and based Psychosocial Support (PSS) sessions	1,500	980	980
18	3.3.2	No. of beneficiary parents/caregivers benefitting from PSS and awareness raising sessions	1,500	980	980
19	-	No. of youths receiving vocational training	1,030	Not Implemented	Activity Suspended
20	2.4.2	No. of private enterprise firms receiving USG assistance (technical and training)	100	70	73
21	2.4	Number of work days (Cash for Internship and internship)	56,100	62,868	62,105
22	3.4.3	Total amount of humanitarian assistance/ emergency supplies provided	1,740,000	435,000	396,487
23	3.1.1	Number of learners enrolled in USG-supported after-school accelerated learning activities	1,570	2,053	2,053
24	3.4.2	Number of people benefiting from USG-supported humanitarian assistance distribution	35,000	41,872	37,108
25	1.1.1	Number of people with improved access to municipal services	80,000	Not Implemented	Not Implemented

PSS Psychosocial Support (PSS)
USG U.S. Government

List of Ongoing Activities With Unclear Targets and Performance Measures (Audited)

Activity Description	Start Date	End Date	No. of Beneficiaries Planned	No. of Beneficiaries Verified	Reported % Completion *	Re-computed % Completion *	Calculation Method Provided by Mercy Corps
Cash for Work	1/4/11	31/7/12	570	615	70	87	14 months passed out of 16 months
Cash for Work	1/4/11	31/7/12	1,088	181	80	87	14 months passed out of 16 months
Cash for Work	1/4/11	31/7/12	939	806	70	87	14 months passed out of 16 months.
Open Source Training	1/3/11	31/7/12	150	57	20	Could not be determined	Design phase (30%) and training (70%). As of May 31, 2012, 57 out of 150 were already been trained.
Job Portal Development and Launch	1/2/12	30/6/12	3,200	820	20	Could not be determined	Method measuring progress calculation not provided. As of May 31, 2012, the project design, data entry, and publishing were completed.

* These two columns show what Mercy Corps reported as percentage of completion compared to the auditor's computation based on actual progress as discussed in the finding on page 10.

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