



United States Department of Agriculture  
Office of Inspector General





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: September 27, 2012

AUDIT  
NUMBER: 50601-0001-16

TO: Suzanne Heinen  
Administrator  
Foreign Agricultural Service

ATTN: Jared Burnett  
Director  
Compliance, Security and Emergency Planning Division

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Section 632(a) Transfer of Funds for Pakistan from USAID to USDA

This report presents the results of the subject audit. As no recommendation was made in the report, no further response for this audit is necessary.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.



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## Section 632(a) Transfer of Funds for Pakistan from USAID to USDA

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### Executive Summary

In support of the U.S. Government's objective to help the Pakistani people overcome political, economic, and security challenges, the United States Department of Agriculture (USDA) is working with the Government of Pakistan to increase agricultural productivity, improve its capacity to provide agricultural services, and help improve rural livelihoods. In 2010 and 2011, the U.S. Agency for International Development (USAID) transferred a total of \$39 million to USDA's Foreign Agricultural Service (FAS) to build Pakistan's capacity for better marketing and productivity in the agricultural sector.<sup>1</sup> In accordance with the Memoranda of Agreement with USAID, the Office of Inspector General (OIG) reviewed USDA agencies' controls to monitor and provide oversight over USAID-transferred funds.<sup>2</sup> We judgmentally selected and reviewed three priority projects identified in the USDA Agricultural Investment Strategy for Pakistan that received \$25 million of the transferred funds.<sup>3</sup> Through our review of the \$10.9 million spent by May 2012 on expenses such as laboratory equipment and supplies, compensation, and travel for program managers responsible for implementing the projects, we found that these funds were used in accordance with the Memoranda of Agreement.<sup>4</sup> Sampled projects were starting the implementation phase at the time of our review. Because the sampled projects were just being implemented at the time of our review, we were unable to verify whether total obligations were expensed and used in accordance with the Memoranda of Agreement between USAID and USDA.

We found that USDA is taking steps to establish controls to monitor and provide oversight over capacity building projects in Pakistan. As the lead agency, FAS provides overall project activity oversight and partners with other USDA agencies and personnel overseeing operations in Pakistan.<sup>5</sup> For instance, FAS reviews quarterly reports from USDA's implementing partners about the status of funds and project performance. FAS also coordinates bi-weekly conference calls with project leaders and personnel in Pakistan, monitors interagency agreements, and assists the implementing partners with Government-to-Government communication to identify potential Pakistani partners. FAS' partners within USDA provide technical assistance and day-to-day project oversight by monitoring cooperative agreements with non-governmental organizations, reviewing quarterly status of funds and performance reports submitted by each organization, conducting periodic meetings or on-site visits, and evaluating project progress.

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<sup>1</sup> Under section 632(a) of the *Foreign Assistance Act of 1961*, USAID transferred \$20 million of fiscal year (FY) 2009 prior year funds to USDA in April 2010 and \$19 million of FY 2010 prior year funds in March 2011.

<sup>2</sup> *Foreign Assistance Act of 1961*, (P.L. 87-194), section 509(d), dated July 2003.

<sup>3</sup> We selected the Wheat Production Enhancement Initiative, Cotton Productivity Enhancement Program, and Control of Animal Diseases Project for review.

<sup>4</sup> As of May 2012, total expenditures for the three projects we selected for review were \$10.9 million. Of the \$10.9 million in expenditures, \$7,140,500 was budgeted for the Control of Animal Disease project, and was immediately expensed and charged to the Food and Agriculture Organization of the United Nations.

<sup>5</sup> FAS partnered with other USDA agencies, such as the Agricultural Research Service (ARS) and the Animal and Plant Health Inspection Service (APHIS), to implement the projects in our sample.

We noted, however, that USDA has not yet implemented a monitoring and evaluation process to measure the effectiveness and impact of its efforts in meeting its program goals and objectives, or a process for formally reviewing the performance of capacity building efforts in Pakistan. According to FAS officials, all of its funded projects in Pakistan are currently moving into the implementation phase. Therefore, it is essential that an effective monitoring and evaluation process and project performance reviews are in place to measure whether projects are meeting their stated goals and objectives. Such reviews improve the accountability of funds and make information available to decision-makers.

According to FAS officials, the agency is currently working to implement an internal project performance review, and is developing formal criteria and procedures for these reviews. Since many of the projects are currently starting to show progress, FAS has informed OIG that it will conduct formal reviews when there is more to see and evaluate. FAS officials in Pakistan will perform internal reviews to determine whether USDA has the necessary resources to continue managing activities in Pakistan.

FAS is also taking steps to implement a monitoring and evaluation process. In September 2011, FAS awarded a Monitoring and Evaluation (M&E) task order under an Indefinite Delivery Indefinite Quantity (IDIQ) contract to implement a results-oriented management monitoring and evaluation system into its current management practices.<sup>6</sup> Currently, proposals for the Pakistan and Afghanistan M&E task order have been evaluated, and FAS officials expect to make an award for this task order before the end of fiscal year (FY) 2012.<sup>7</sup>

As FAS is currently working to develop and implement these reviews and processes, we are currently unable to fully assess the adequacy of monitoring and oversight controls. We will continue to monitor FAS' implementation of these processes during the next phase of our audit. Accordingly, we are not making any recommendations in this report and require no further action or response to us at this time.

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<sup>6</sup> According to contract documents, the selected contractor will assist FAS staff in developing, validating, and implementing an overarching results framework for two of FAS' fragile market economies, Pakistan and Afghanistan. The contractor will base the overarching results framework on individual country-level results for each fragile market. The contractor will also facilitate the development of project specific monitoring and evaluation plans that will allow FAS staff to map existing and future program activities to the country-level objectives to demonstrate how and where activities are supporting the Agricultural Investment Strategy for Pakistan.

<sup>7</sup> In October 2011, all work under the IDIQ contract was placed on hold, due to a protest of the IDIQ contract under which this task order fell. On March 28, 2012, the IDIQ contract was awarded.



## Background and Objectives

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### Background

As part of the USDA Agricultural Investment Strategy for Pakistan, USDA partnered with the Government of Pakistan and other core agricultural institutions to increase agricultural productivity by building capacities to develop new technologies, improve management practices, and institute policy measures that increase on-farm and value chain economic returns. USDA assistance efforts are a part of the overall development effort led by USAID.

In April 2010, in accordance with the authority granted to carry out the *Foreign Assistance Act of 1961*, USAID transferred \$20 million to FAS for capacity-building activities in Pakistan that included developing and distributing new high-yielding wheat varieties that are resistant to virulent wheat diseases, improving cotton productivity, and minimizing the incidence of virulent animal diseases. To continue to support projects for these purposes under the same authority, USAID transferred a second installment of \$19 million to USDA in March 2011.

FAS is the lead agency for USDA's international activities and efforts to help developing countries improve their agricultural systems and build their trade capacity. FAS' mission is to link U.S. agriculture to the world to enhance export opportunities and global food security. In addition to its Headquarters in Washington, D.C., FAS has a global network of 98 international offices, covering 162 countries.

Pakistan's agricultural sector directly and indirectly supports nearly two-thirds of the country's rural population and is critical to poverty reduction and national food security. Given the country's reliance on agriculture, slow growth in the sector has hindered overall economic development and exacerbated insecurity.

### Objectives

The overall objective of this audit is to evaluate the adequacy of the management controls established by USDA agencies to monitor and provide oversight over funds transferred under Section 632(a). Specifically, we will evaluate whether transferred funds are being used in accordance with the Memoranda of Agreement between USAID and USDA.



## Scope and Methodology

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We conducted fieldwork at the FAS national office in Washington, D.C., as well as the international program offices of other USDA agencies that have partnered with FAS to implement capacity building activities in Pakistan, including the Agricultural Research Service (ARS) office in Beltsville, Maryland, and the Animal and Plant Health Inspection Service (APHIS) office in Riverdale, Maryland. We performed our audit fieldwork between July 2011 and March 2012.

Our audit work focused primarily on identifying and evaluating USDA controls over funds transferred from USAID to USDA for capacity building activities in Pakistan. To assess whether FAS has sufficient controls over the projects, we selected the three of the nine priority projects that received the highest funding (a total of \$25 million) under the USDA Agricultural Investment Strategy for Pakistan.

<b>Projects</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FYs 2009/2010 Total Allocation</b>
Wheat Production Enhancement Initiative	\$8,000,000	\$1,000,000	\$9,000,000
Cotton Productivity Enhancement Program	\$3,750,000	\$5,250,000	\$9,000,000
Control of Animal Diseases	\$7,140,500	\$0	\$7,140,500
Total			\$25,140,500

To accomplish our audit objectives:

- We interviewed FAS program officials from the Fragile Market Economies Division and staff stationed at post in Pakistan to obtain an understanding of their oversight responsibilities, management controls over capacity building activities, and coordination efforts with other USDA agencies, implementing partners, and the Government of Pakistan. We interviewed FAS program officials within the Budget and Financial Management Division to identify their role in the funds transfer process and in the accounting, monitoring, and reporting of obligations and expenditures. We also interviewed FAS officials from the M&E staff to determine whether controls are in place to measure whether projects are meeting their stated goals and objectives.
- We interviewed ARS officials from the Office of International Research Programs, Office of National Programs, and the Genomics and Bioinformatics Research Unit, and APHIS officials from the Office of International Technical and Regulatory Capacity Building to gain an understanding of their individual project oversight responsibilities, management controls over projects, and coordination efforts with FAS and implementing partners.

- We reviewed the Memoranda of Agreement, interagency and cooperative agreements, project files, trip reports, quarterly and annual technical reports, fund transfer documents, status of funds reports, and other documentation related to capacity building efforts in Pakistan. We also participated in bi-weekly Pakistan conference calls.
- We assessed the adequacy of internal controls, policies, and procedures USDA officials use to implement capacity building activities in Pakistan, and reviewed FAS' efforts to implement a monitoring and evaluation process and project performance reviews.
- We reviewed applicable legislative history, laws, Government Accountability Office reports, and agencies' internal reviews, including the Federal Managers' Financial Integrity Act reports.

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 based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Abbreviations

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APHIS .....	Animal and Plant Health Inspection Service
ARS .....	Agricultural Research Service
FAS .....	Foreign Agricultural Service
FY .....	Fiscal year
IDIQ .....	Indefinite Delivery Indefinite Quantity
M&E .....	Monitoring and Evaluation
OIG .....	Office of Inspector General
USAID .....	U.S. Agency for International Development
USDA.....	Department of Agriculture

Informational copies of this report have been distributed to:

Administrator, Foreign Agricultural Service

Attn: Agency Liaison Officer (2)

Administrator, Agricultural Research Service

Attn: Agency Liaison Officer (5)

Administrator, Animal and Plant Health Inspection Service

Attn: Agency Liaison Officer (4)

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer

Attn: Director, Planning and Accountability Division (1)

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