February 17, 2011

Congressional Committees

Subject: Department of State’s Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced

Pakistan is a key U.S. ally in the effort to combat terrorism and violent extremism. Taliban, al Qaeda, and other terrorists have used parts of Pakistan to plan and launch attacks on Afghan, U.S., and NATO security forces in Afghanistan, as well as on Pakistani citizens and security forces in Pakistan. Enhancing the effectiveness of civilian assistance to Pakistan is one of the U.S. government’s top foreign policy and national security priorities. Foreign assistance is vital to help the government of Pakistan overcome the political, economic, and security challenges that threaten Pakistan’s long-term stability. Since 2002, the United States has provided over $18 billion in foreign assistance and reimbursements to Pakistan, about two-thirds of which has been security-related.

In October 2009, Congress passed the Enhanced Partnership with Pakistan Act of 2009, which authorizes up to $1.5 billion a year for development, economic, and democratic assistance (henceforth referred to as “civilian assistance”) to Pakistan for fiscal years 2010 through 2014. In the act, Congress declares that the United States requires a balanced, integrated, countrywide strategy to support Pakistan’s efforts that does not disproportionately focus on security-related assistance. The act authorizes civilian assistance for a wide range of activities, including projects to build the capacity of government institutions, promote sustainable economic development, and support investment in people through education and health programs. The act also encourages, as appropriate, the use of Pakistani organizations to provide this assistance. In several reports and testimonies since 2008, GAO identified the need to improve planning, monitoring, documentation, and oversight of U.S. assistance to Pakistan. For example, in previous reports we have noted the need to increase oversight and accountability for Pakistan’s reimbursement claims for Coalition Support Funds and to improve planning, performance, and monitoring.

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2GAO, Combating Terrorism: Increased Oversight and Accountability Needed Over Pakistan Reimbursement Claims for Coalition Support Funds, GAO-08-806 (Washington, D.C.: June 24, 2008).
The Enhanced Partnership with Pakistan Act of 2009 requires the Department of State (State) to develop several monitoring and strategy reports for U.S. assistance to Pakistan, including the Pakistan Assistance Strategy Report and the Semi-Annual Monitoring Report. The act also directed the Comptroller General to provide: (1) a review of, and comments addressing, State’s Pakistan Assistance Strategy Report; (2) an assessment of the impact of the civilian assistance on the security and stability of Pakistan; (3) a detailed description of the expenditures made by Pakistan with Foreign Military Financing (FMF) grants; and (4) recommendations relating to any additional actions the Comptroller General believes could help improve the efficiency and effectiveness of U.S. efforts to meet the objectives of the act. This report addresses these issues. We provide information on Pakistan’s use of FMF grants in enclosure I, and our recommendations to improve the efficiency and effectiveness of U.S. efforts are included later under “Recommendations for Executive Action.”

To conduct this work, we reviewed relevant legislation and agency documents, including the Pakistan Assistance Strategy Report issued on December 14, 2009, Quarterly Progress and Oversight Reports, spending plans, contracts, grants, and bilateral agreements. We interviewed officials from State, the U.S. Agency for International Development (USAID), and the Department of Defense in Washington, D.C. Further, we also interviewed officials in Islamabad, Pakistan, from State, USAID, and the Office of the Defense Representative to Pakistan, as well as officials from the government of Pakistan. We also analyzed funding and expenditure data. We conducted this performance audit from June 2010 to February 2011, 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The U.S. Pakistan Assistance Strategy Report Included or Partially Included All Required Provisions

The Pakistan Assistance Strategy Report mandated by the Enhanced Partnership with Pakistan Act describes U.S. policy and strategy for the civilian assistance to Pakistan. The act mandates that the report, submitted by the Secretary of State to Congress in December 2009, include seven reporting requirements. We reviewed the report to assess whether each of the seven required items was included. We found that the report included five and partially included two of the required provisions, as shown in figure 1.

First, while the report describes plans related to program monitoring and impact evaluation research, it does not contain plans specifically related to operations research as defined in the act as “the application of social science research methods, statistical analysis, and other appropriate scientific methods to judge, compare, and improve policies and program outcomes, from the earliest stages of defining and designing programs through their development and implementation, with the objective of the rapid dissemination of conclusions and concrete impact on programming.” Furthermore, the act requires that the plans on program monitoring, impact evaluation research, and operations research in the Pakistan Assistance Strategy Report be updated every 180 days in the Semi-Annual Monitoring Report. To date, updated versions of these monitoring reports have not included plans for operations research. Agency officials stated that failure to include information on operations research does not indicate that it is not being done and provided GAO with some examples of USAID’s use of operations research.

Second, the report did not include a projection of levels of assistance to be provided to Pakistan under the act for all 17 of the Millennium Challenge Account eligibility indicators, as the act requires. This section of the report did not contain information on 7 of the Millennium Challenge indicators, including, for example, natural resource management, business start-up, trade policy, and inflation control. We make recommendations to enhance the Pakistan Assistance Strategy Report under “Recommendations for Executive Action.”

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## Section 1: Principal Objectives

Describes three key objectives for civilian assistance:
1. Improve Pakistan’s capacity to address critical infrastructure needs,
2. Help Pakistan address basic needs and provide improved economic opportunities in areas most vulnerable to extremism, and
3. Strengthen Pakistan’s capacity to pursue economic and political reforms that reinforce stability.

## Section 2: Programs

Describes three broad categories for the assistance and their respective funding levels for fiscal year 2010 through fiscal year 2014:
1. High-Impact, High-Visibility Infrastructure programs—$3.5 billion,
2. Focused Humanitarian and Social Services—$2 billion, and

## Section 3: Plans for Program Monitoring, Operations Research, and Impact Evaluation Research

Describes activities related to
1. Increasing U.S. government staffing to manage and monitor programs, and
2. Strengthening U.S. audit and investigative capabilities. However, this section lacked information on plans for operations research.

## Section 4: Role of Pakistani Officials and Leaders

Describes U.S. efforts to
1. Align assistance with Pakistani priorities,
2. Incorporate Pakistani input into U.S. planning, and
3. Increasingly implement programs through a broad range of Pakistani institutions, both governmental and nongovernmental.

## Section 5: Prohibit Assistance to Individuals or Entities Affiliated with Terrorist Organizations

Describes some of the guidelines and required procedures, including those specifically used by USAID and State, to prevent U.S. assistance from being awarded to terrorist organizations or their supporters.

## Section 6: Projection of the Levels of Assistance Organized by the Millennium Challenge Account Categories

Organizes 10 of the 17 indicators the Millennium Challenge Account uses to determine the eligibility of its candidate countries into the three broad program categories described in section 2 of the report. However, 7 of the indicators were not addressed.

## Section 7: An Analysis for the Replacement of Pakistani Helicopters

Summarizes the findings and recommendations of a review of the Pakistani Army’s aviation needs.

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Source: GAO analysis of State report.
Most of the Fiscal Year 2010 Funding Has Not Been Disbursed; Therefore, the Full Impact of the Assistance Could Not Be Determined

As of December 31, 2010, the full impact of the fiscal year 2010 civilian assistance could not be determined because most of the funding had not yet been disbursed (see fig. 2). According to a State document, it will take some time before significant outcomes of the civilian assistance can be measured. Furthermore, performance indicators, targets, and baselines had not yet been established for all of the civilian assistance. USAID, for example, is in the process of establishing new indicators across all sectors.

Figure 2: Fiscal Year 2010 Civilian Assistance to Pakistan (as of December 31, 2010)

For fiscal year 2010, just over $1.5 billion in appropriated funds was allocated to carry out civilian assistance activities authorized by the act. According to U.S. officials, civilian assistance to Pakistan includes programs funded through the following appropriation accounts: (1) Economic Support Funds—$1.3 billion; (2) Global Health and Child Survival—$30 million; (3) International Narcotics Control and Law Enforcement—$170 million; and (4) Nonproliferation, Antiterrorism, De-mining, and Related Programs—$22 million. According to USAID, there are two common ways in which it obligates these appropriated funds: bilateral obligation and direct obligation. For bilateral obligations, USAID first develops a bilateral assistance agreement with the government of Pakistan, in which the detailed projects and activities are typically

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6The amount of time the funds from these appropriation accounts remain available for obligation depends on the appropriation account from which they originate. The Economic Support funds; International Narcotics Control and Law Enforcement funds; Global Health and Child Survival funds; and Nonproliferation, Antiterrorism, De-mining, and Related Programs funds appropriated in the 2010 annual appropriations act remain available until the end of fiscal year 2011. The Economic Support funds and International Narcotics Control and Law Enforcement funds appropriated in the 2010 supplemental act remain available until the end of fiscal year 2012.
not yet fully developed. USAID considers these funds obligated once the assistance agreement is signed. If USAID directly implements activities under this assistance agreement, USAID then further “sub-obligates” the funds by signing grants, contracts, agreements, or other instruments. For direct obligations, funds are obligated directly through contracts, grants, or agreements on a case-by-case basis for specific implementers’ activities.

Of the approximately $1.5 billion allocated for civilian assistance in fiscal year 2010, State and USAID information indicates that there was $1.2 billion in an obligated balance as of December 31, 2010. Most of the civilian assistance to Pakistan was not obligated until late September 2010, when USAID signed a bilateral assistance agreement with the government of Pakistan for up to $831 million to support programs in the following general areas: democracy and governance, health, education, economic opportunity, agriculture, and energy—as well as targeted programs implemented in FATA and the Khyber Pakhtunkhwa province. USAID is currently in the process of fully developing projects and activities for this assistance and has already “sub-obligated” some of these funds through contracts, grants, and agreements. Additional plans for fiscal year 2010 civilian assistance from State’s Bureau of International Narcotics and Law Enforcement Affairs include rule of law programs, aviation support, counternarcotics programs, as well as police training, infrastructure, and equipment. Recently, State has indicated that up to $500 million of this assistance will be used to provide flood relief and fund recovery efforts.

According to State and USAID, as of December 31, 2010, $179.5 million has been disbursed for the following programs and projects:

- **Benazir Income Support Program** ($75 million): U.S. funds will be used to provide cash income supplements to approximately 600,000 beneficiaries through a cash transfer to Pakistan’s flagship social support program.

- **Higher Education Commission** ($45 million): U.S. funds transferred directly to the commission will be used for various initiatives, for example, to support centers of excellence at Pakistani universities.

- **Flood Assistance** ($23.3 million): U.S. funds were used to support a broad range of flood relief and recovery activities, including agriculture recovery, emergency relief supplies, reproductive health kits, immunizations for children, water and sanitation activities, and support for Pakistan’s National Disaster Management Authority.

- **Fulbright Program** ($19.5 million): U.S. funds will provide scholarships to Pakistani students to obtain postgraduate degrees from American universities.

- **International Narcotics Control and Law Enforcement programs** ($8.4 million): U.S. funds were used for an aviation support contract and program development.

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7 The Khyber Pakhtunkhwa province was previously known as the Northwest Frontier Province.
8 In late summer 2010, monsoon rains caused massive flooding throughout Pakistan.
• **Sindh Agricultural Recovery Program** ($6.3 million): U.S. funds will be used to help flood-affected farmers in the Sindh province cultivate sunflowers by providing seed, fertilizer, and technical assistance.

• **Antiterrorism Training and Program Management** ($2.0 million): U.S. funds will be used to provide training to Pakistani law enforcement officials on a wide range of issues, including tactical operations, investigations, support infrastructure, and institution security.

**USAID’s Efforts to Oversee Civilian Assistance Awarded to Pakistani Organizations Can Be Further Enhanced**

USAID is planning to shift its program implementers from U.S.-based partners to Pakistani organizations, including local, provincial, and federal government and nongovernmental organizations. According to agency officials, approximately half of all fiscal year 2010 civilian assistance will be implemented through these Pakistani organizations, some of which may initially lack the capacity to efficiently and effectively implement and monitor U.S.-funded projects. State and USAID have noted that the limited institutional capacity of new implementing partners is a potential challenge and that USAID intends to take steps to identify and address weaknesses in these organizations. USAID described a number of risk mitigation strategies and steps it has already undertaken or intends to take to improve the capacity of Pakistani organizations that do not meet minimum standards for managing U.S. funds. Figure 3 provides an illustration of these steps.

**Figure 3: Assessment and Capacity Building of Pakistani Organizations Implementing U.S. Assistance**

Risk mitigation and strategies by USAID include the following:

• Pakistani organizations receiving U.S. funding for the first time would undergo a preaward assessment of their internal controls and financial management systems conducted by Pakistani Certified Public Accounting (CPA) firms that have been approved by USAID’s Office of the Inspector General to conduct financial audits.9 The CPA firms would identify vulnerabilities and make

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9According to USAID’s Office of the Inspector General, while the CPA firms used to conduct the preaward assessments were approved to conduct financial audits, they were not approved for nonaudit work such as consulting or other nonaudit services. USAID used the list of approved audit firms to choose its consultants as a means of ensuring a minimum level of quality.
recommendations for actions to address these vulnerabilities before USAID provides funding.

- Organizations identified as high-risk or medium-risk by the Pakistani CPA firms would still receive U.S. funds but would be expected to participate in a capacity-building program intended to provide training in key areas, such as financial management, human resources, and monitoring and evaluation. Organizations may also be required to meet other conditions, such as setting up a separate account for U.S. funds.

- In cases where an organization requires additional support, staff from a Pakistani CPA firm would be embedded within the organization to provide accelerated capacity-building by developing policies and procedures, training staff, and providing management support.

- In addition to the initial preaward assessments for first-time funding recipients, all Pakistani organizations would undergo an annual assessment to determine their current risk level. Organizations identified as high-risk or medium-risk would participate in a capacity-building program and/or have staff from an approved CPA firm embedded within their organization.

- USAID would require CPA firms to validate all payment requests from Pakistani organizations implementing U.S.-funded programs before providing funds.

As per USAID’s guidance, the preaward assessments must be used when making the determination to award funds to an organization new to USAID. However, USAID guidance on preaward assessments does not contain information on whether weaknesses identified in the preaward assessment must be addressed or whether the assessment’s recommendations to enhance the accountability of U.S. funds must be implemented. For Pakistani organizations that were required to undergo a preaward assessment, GAO reviewed their respective contracts, grants, or agreements for fiscal year 2010 assistance as well as the assessment’s results. Our analysis indicated that not all of these contracts, grants, and agreements required these organizations to address the weaknesses identified in their preaward assessment. For example, a grant with a Pakistani organization that had been identified as medium-risk did not include any specific provisions to address any of the recommendations made in the preaward assessment for mitigating identified risks, which, among others, included the need to implement a conflict of interest policy and recruit more qualified internal audit and procurement staff.

Conclusions

Proper congressional oversight of assistance programs requires complete and accurate information. While the Pakistan Assistance Strategy Report included most of the required information, it did not include (1) plans for operation research and (2) a projection of the levels of assistance to be provided to Pakistan for 7 of the 17 Millennium Challenge Account categories. This information should be made available to Congress in a timely manner. Furthermore, given prior deficiencies identified in the monitoring and evaluation of U.S. assistance to Pakistan, it is important that
future implementation of U.S. assistance have proper oversight and meet U.S. standards for internal controls. Additional risk may be incurred by increasingly providing U.S. assistance through Pakistani organizations, some of which may initially lack the capacity to efficiently and effectively implement and monitor U.S.-funded projects. To help prevent waste, fraud, and abuse of U.S. funds, it is important that USAID effectively implement and monitor efforts to address the weaknesses and enhance the capacity of these organizations, particularly those that are identified as having a high-risk or medium-risk of not meeting standards for managing U.S. funds.

Recommendations for Executive Action

To supplement the Pakistan Assistance Strategy Report so that information reported to Congress complies with all requirements of the Enhanced Partnership with Pakistan Act of 2009, we recommend that the Secretary of State take the following two actions:

- include information on plans for operations research, as defined in the act, in its forthcoming Semi-Annual Monitoring Report; and
- deliver to Congress a projection of the levels of assistance to be provided to Pakistan under the act, broken down into the 17 Millennium Challenge categories listed in the act.

To enhance the accountability of U.S. civilian assistance to Pakistan, we recommend that the USAID Administrator should ensure that U.S. assistance to Pakistani organizations identified as high- or medium-risk be provided through contracts, grants, or agreements that require these organizations to address weaknesses identified in their preaward assessment that would improve the accountability of U.S. funds. These measures can include such steps as implementing a conflict of interest policy, recruiting more qualified internal audit and procurement staff, embedding approved CPA staff, and participating in a capacity-building program.

Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of Defense and State and USAID. State and USAID provided written comments, which are reprinted in enclosures II and III. All three agencies provided technical comments, which we incorporated throughout the draft as appropriate.

In commenting on a draft of this report, State agreed with our recommendations to include information on plans for operations research in a future Semi-Annual Monitoring Report and noted that operations research to track performance and impact program design and implementation for civilian assistance is already ongoing. State also agreed with our recommendation to provide Congress with a projection of the levels of assistance to be provided to Pakistan under the Enhanced Partnership with Pakistan Act, broken down into the 17 Millennium Challenge categories listed in the act.
Further, both State and USAID agreed with our recommendation made to USAID to ensure that U.S. assistance being implemented by Pakistani organizations identified as high-risk or medium-risk be provided through contracts, grants, or agreements that require these organizations to address weaknesses identified in their preaward assessment. State noted that there are USAID mechanisms in place to address weaknesses identified in preaward assessments, and USAID provided examples of steps taken to address the weaknesses identified. USAID also stated that all contracts, grants, and agreements awarded to high-risk or medium-risk recipients take into consideration weaknesses identified in the preaward assessments and requested closure of this recommendation. However, as previously noted, our analysis indicated that not all contracts, grants, and agreements required high- and medium-risk Pakistani organizations to address the weaknesses identified in their preaward assessment. We reiterate our recommendation that USAID take steps to ensure that all future contracts, grants, and agreements with high- and medium-risk Pakistani organizations include provisions that address the weaknesses identified in their preaward assessment that would improve the accountability of U.S. funds.

We are sending copies of this report to the appropriate congressional committees, the Secretaries of Defense and State, the Administrator of USAID, and other interested parties. The report also is available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-7331 or johnsoncm@gao.gov. Contact points for our Offices of Public Affairs and Congressional Relations may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure IV.

Charles Michael Johnson, Jr.
Director, International Affairs and Trade

Enclosures (4)
List of Congressional Committees

The Honorable Carl Levin  
Chairman  
The Honorable John McCain  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable John Kerry  
Chairman  
The Honorable Richard Lugar  
Ranking Member  
Committee on Foreign Relations  
United States Senate

The Honorable Howard McKeon  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Ileana Ros-Lehtinen  
Chairman  
The Honorable Howard Berman  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

The Honorable Daniel Inouye  
Chairman  
The Honorable Thad Cochran  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Patrick Leahy  
Chairman  
The Honorable Lindsey Graham  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
United States Senate
Pakistan Has Used $1.86 Billion in FMF Grants to Acquire Various Items, Including Aircraft Modernization, Radios, Ammunition, and Training

Since fiscal year 2002, a total of $2.11 billion has been appropriated for FMF grants to Pakistan. Of that amount, Pakistan has used about $1.86 billion to acquire various defense articles, services, or training (see figure 4). Some of these funds have been used to refurbish or upgrade defense articles that were given to Pakistan under the Excess Defense Articles program, including Cobra helicopters, armored personnel carriers, and the frigate U.S.S. McInerney. As of the end of calendar year 2010, Pakistan still had approximately $250 million available to purchase U.S. defense articles, services, or training. According to agency documents, some of these funds will be used to acquire naval surveillance aircraft, communications equipment, upgrades to TOW missile launchers, and additional helicopters.

Figure 4: Items Purchased by Pakistan with FMF Grants as of 12/31/10

<table>
<thead>
<tr>
<th>Description and (quantity)</th>
<th>Year(s)</th>
<th>Value (dollars in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P-3C Avionics Maritime Patrol Aircraft Upgrades and Related Support (7 aircraft)</td>
<td>2003, 2005, 2006, 2008</td>
<td>$507.6</td>
</tr>
<tr>
<td>F-16 Mid-Life Updates (35 jets)</td>
<td>2006</td>
<td>$476.4</td>
</tr>
<tr>
<td>TOW IIA Anti-Tank Missile Launchers and Missiles (121 launchers, 8,212 missiles)</td>
<td>2005, 2007, 2010</td>
<td>$215.5</td>
</tr>
<tr>
<td>Harris Radios (2,335 radios)</td>
<td>2004, 2005, 2007, 2010</td>
<td>$213.1</td>
</tr>
<tr>
<td>TPS-76 Radar Systems (6 systems)</td>
<td>2004</td>
<td>$96.9</td>
</tr>
<tr>
<td>Technical Support Team at Shahbaz Air Force Base</td>
<td>2010</td>
<td>$82.1</td>
</tr>
<tr>
<td>C-130E Transport Aircraft Refurbishments (6 aircraft)</td>
<td>2003</td>
<td>$75.9</td>
</tr>
<tr>
<td>U.S.S. McInerney Frigate Refurbishment</td>
<td>2010</td>
<td>$58.8</td>
</tr>
<tr>
<td>Cobra Helicopter Refurbishments and Support (12 helicopters)</td>
<td>2003, 2004</td>
<td>$53.5</td>
</tr>
<tr>
<td>Self-Propelled M-109A5 Howitzers (115 howitzers)</td>
<td>2006</td>
<td>$52.5</td>
</tr>
<tr>
<td>Aircraft Training</td>
<td>2002</td>
<td>$7.6</td>
</tr>
<tr>
<td>Frigate Training</td>
<td>2010</td>
<td>$6.0</td>
</tr>
<tr>
<td>20 mm Ammunition (600,000 cartridges)</td>
<td>2009, 2010</td>
<td>$5.2</td>
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<tr>
<td>Helicopter Spare Parts</td>
<td>2004</td>
<td>$2.6</td>
</tr>
<tr>
<td>Electronic Warfare Equipment (signal jammers, expendable chaff, flares, etc.)</td>
<td>2002</td>
<td>$1.9</td>
</tr>
<tr>
<td>PVS-7 Night Vision Devices (300 devices)</td>
<td>2004</td>
<td>$1.5</td>
</tr>
<tr>
<td>Aircraft Spare Parts</td>
<td>2003</td>
<td>$1.3</td>
</tr>
<tr>
<td><strong>Total committed</strong></td>
<td></td>
<td><strong>$1,858.4</strong></td>
</tr>
</tbody>
</table>

Source: Department of Defense.

1 This represents the year(s) officials from both the U.S. and Pakistani governments signed the agreement and the initial payment was deposited for the defense articles, services, and training.
2 This case was initially implemented in 1984 and was amended in 2003.
Enclosure II: Comments from the Department of State

United States Department of State

Chief Financial Officer

Washington, D.C. 20520

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

FEB 09 2011

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, “State Department’s Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced,” GAO Job Code 320829.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact James Thrower, Foreign Affairs Officer, Bureau of South and Central Asian Affairs at (202) 736-7906.

Sincerely,

James L. Millette

cc: GAO – Charles Johnson
SCA – Robert Blake
State/OIG – Evelyn Klemstine
Department of State Comments on GAO Draft Report

PAKISTAN ASSISTANCE STRATEGY: State Department’s Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced
(GAO-11-310R, GAO Code 320829)

The Department of State appreciates the opportunity to comment on GAO’s draft report entitled “PAKISTAN ASSISTANCE STRATEGY: State Department’s Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced.”

**Recommendation:** To supplement the Pakistan Assistance Strategy Report so information reported to Congress complies with all requirements of the Enhanced Partnership with Pakistan Act of 2009, the Secretary of State should: include information on plans for operations research, as defined in the act, in its forthcoming Semi-Annual Monitoring Report; and deliver to Congress a projection of the levels of assistance to be provided to Pakistan under the act, broken down into the 17 Millennium Challenge categories listed in the act.

**Response:** The Department concurs with the GAO’s recommendation to include information on plans for operations research (described as “the application of social science research methods, statistical analysis, and other appropriate scientific methods to judge, compare, and improve policies and program outcomes, from the earliest stages of defining and designing programs through their development and implementation, with the objective of the rapid dissemination of conclusions and concrete impact on programming”) in future Semi-Annual Monitoring Reports. The Department notes that, as described in the GAO draft report itself, operations research to track performance and impact program design and implementation for civilian assistance is already ongoing and information on such plans can be included in monitoring reports beginning in 2011. The Department will also separately provide a one-time projection of the levels of assistance to be provided to Pakistan under the act, broken down into the 17 Millennium Challenge categories listed in the act.

**Recommendation:** To enhance the accountability of U.S. civilian assistance to Pakistan, the USAID Administrator should ensure that U.S. assistance to Pakistani organizations identified as medium or high risk be provided through contracts, grants, or agreements that require these organizations to address weaknesses identified in their pre-award assessment that would improve accountability of U.S.
funds. These measures can include such steps as implementing a conflict of interest policy, recruiting more qualified internal audit and procurement staff, and embedding approved Certified Public Accounting staff and/or participation in a capacity-building program.

**Response:** The Department concurs with the recommendation in principle, as ensuring accountability of civilian assistance to Pakistan is a high priority, but notes that USAID mechanisms are already in place to address weaknesses identified in pre-award assessments in award agreements. In particular, pre-award assessment recommendations are incorporated into activity agreements by the USAID Mission, based on judgments about how best to strengthen accountability and control and facilitate the smooth execution of the program.
Enclosure III: Comments from the U.S. Agency for International Development

Charles Michael Johnson Jr.
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Johnson,

I am pleased to provide the U.S. Agency for International Development’s (USAID) formal response to the GAO draft report entitled *U.S. Pakistan Assistance Strategy Report (GAO-11-310R)*.

The enclosed USAID comments are provided for incorporation with this letter as an appendix to the final report.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this audit review.

Sincerely,

[Signature]

Sean Carroll
Chief Operating Officer
U.S. Agency for International Development

Enclosure: a/s
In response to the referenced draft audit report, please find below the management response:

**Recommendation 1:** We recommend that the USAID Administrator ensure that U.S. assistance to Pakistani organizations identified as medium or high risk be provided through contracts, grants, or agreements that require these organizations to address weaknesses identified in their pre-award assessment that would improve the accountability of U.S. funds. These measures can include such steps as implementing a conflict of interest policy, recruiting more qualified internal audit and procurement staff, embedding approved Certified Public Accounting staff and/or participation in a capacity-building program.

**Response:** USAID agrees with this recommendation. All contracts, cooperative agreements, and grants awarded to medium to high risk recipients take into consideration weaknesses identified in the pre-award assessments and identify requirements necessary to address them. Weaknesses emanate from areas such as: (1) conflict of interest, (2) formation of audit committees, (3) compliance capability with applicable laws, (4) roadmap for the implementation of policies and procedures including capacity building, (5) development of policies and (6) embedding approved CPA firm for the capacity building of the organization, etc.

The USAID Mission in Pakistan has already taken the steps to address the weaknesses identified. These steps include: issuance of conflict of interest policy directive (attached at annex 1); execution of two contracts for implanting of CPA firms in two implementing partners viz., Federally Administered Tribal Areas (FATA) Secretariat and Provincial Reconstruction, Rehabilitation & Settlement Authority (PaRRSA) (attached at annex 2); increasing Mission financial management and procurement staff from 22 in September 2009 to 51 in January 2011; and establishing the Mission’s Assessment and Strengthening Program (ASP) through three cooperative agreements with local implementing partners to (1) conduct pre-award assessments on potential recipients’ financial, procurement and administrative management and internal controls, (2) build institutional capacity of local implementing partners, and (3) provide training in financial, procurement and management to local implementing partners. ASP will provide required institutional support for enhancing accountability and building partner organization capacity to effectively manage U.S. Government resources. The Mission has a comprehensive financial management strategy in place which establishes a risk mitigation approach and provides a framework for all the efforts that the Mission is undertaking to address accountability and reduce vulnerabilities.

Accordingly, USAID requests closure of this recommendation.
Enclosure IV: GAO Contact and Staff Acknowledgments

GAO Contact

Charles Michael Johnson, Jr., (202) 512-7331, or johnsoncm@gao.gov

Staff Acknowledgments

Major contributors to this report were Hynek Kalkus, Assistant Director; Claude Adrien; Erin O’Brien; David Dayton; Virginia Chanley; and Mary Moutsos.
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