

**Audit of USAID/Bosnia-Herzegovina's  
Municipal Infrastructure and Services Program  
for the Period  
July 1 through September 30, 1997**

**Audit Report No. B-158-98-003-P  
March 26, 1998**



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
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March 26, 1998

MEMORANDUM

TO: USAID/Bosnia-Herzegovina, Craig G. Byck  
FROM: RIG/Budapest, *James R. Bonnell*  
SUBJECT: Audit of USAID/Bosnia-Herzegovina's Municipal Infrastructure and Services Program for the Period July 1 through September 30, 1997

This is our final report on the subject audit. In preparing the report, we considered your comments on the draft report and included them at Appendix II. The report concludes that, for the items tested, program funds are being used for the purposes authorized. Furthermore, the implementation of the Municipal Infrastructure and Services Program continues at a rate that, if maintained, should complete the construction targets well in advance of the 4½ years originally established for the program. In addition, the report also includes the results of our review of Parsons' Sarajevo warehouse operations which began during this reporting quarter. We believe that Parsons has established satisfactory control procedures.

This report makes no new recommendations. Thank you for the assistance and courtesies extended to my staff during the audit.

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**Background**

Bosnia-Herzegovina declared its independence from the former Socialist Republic of Yugoslavia in March 1992, following the lead of Slovenia and Croatia which declared independence in 1991. The move to independence precipitated a war in Bosnia-Herzegovina that lasted from 1992 to the Dayton Agreement of October 10, 1995. After the war, Bosnia-Herzegovina was faced with consolidating the peace and reconstructing its war-torn economy. In addition to financing needed repairs to the infrastructure and providing social services, the government faced large private claims and large claims for wages and pensions.

In early May 1996, the Assistant Administrator for the Bureau of Europe and the New Independent States authorized the 4½-year, \$182 million Municipal Infrastructure and Services (MIS) program to assist in Bosnia-Herzegovina's recovery. On May 9, 1996, a grant agreement

was signed between the United States and Bosnia-Herzegovina to obligate the initial \$23 million for this program. As the following table shows, approximately \$115.7 million has been obligated for infrastructure projects—about \$63.7 million for fiscal year (FY)1996 and \$52 million for FY1997.

**SUMMARY OF OBLIGATIONS AND FUNDS TRANSFERS  
AS OF SEPTEMBER 30, 1997**

<b>OBLIGATING DOCUMENT [TYPE &amp; DATE]</b>	<b>AMOUNT OBLIGATED [Millions]</b>	<b>FISCAL YEAR FUNDS</b>	<b>DATE of FUNDS TRANSFER</b>
Grant agreement May 9, 1996	\$ 23.0	FY1996	July 1, 1996
Amendment #1 September 3, 1996	35.0	FY1996	September 11, 1996
Amendment #2 March 20, 1997	52.0	FY1997	April 28, 1997
Amendment #3 September 12, 1997	5.7	FY1996	September 15, 1997
<b>Total Obligated</b>	<b>\$115.7</b>		

See Appendix VI for additional background information.

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### **Audit Objective and Scope of Work**

The objective of this concurrent audit was to determine whether USAID/Bosnia-Herzegovina and the implementing contractor used economic revitalization assistance funds designated for the Municipal Infrastructure and Services program for the purposes authorized under the Grant Agreement and Public Law 104-122.

The Office of the Inspector General has issued periodic reports on the Municipal Infrastructure and Services program. This is the fourth report<sup>1</sup> on that program. Appendix I contains a discussion of the scope and methodology for the audit.

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<sup>1</sup> See Audit Report No. B-168-97-003-P, dated March 26, 1997, for the period May 4 to December 31, 1996; Audit Report No. B-168-97-005-P, dated June 27, 1997, for the period January 1 through March 31, 1997; and Audit Report No. B-168-98-002-P, dated January 9, 1998, for the period April 1 through June 30, 1997.

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## **Audit Findings**

### **Did USAID/Bosnia-Herzegovina and the Implementing Contractor Use Economic Revitalization Assistance Funds Designated for the Municipal Infrastructure and Services Program for the Purposes Authorized Under the Grant Agreement and Public Law 104-122?**

For the items tested, USAID/Bosnia-Herzegovina and the implementing contractor were using the economic revitalization assistance funds designated for the Municipal Infrastructure and Services (MIS) program for the purposes authorized under the MIS grant agreement and Public Law 104-122.

#### **MIS Program - What can funds be used for?**

After the collapse of Yugoslavia and during the ensuing four-year war, there was no investment in new infrastructures in Bosnia-Herzegovina. Also, except for emergency measures, maintenance and repair of existing infrastructures were neglected.

Infrastructure projects eligible to receive assistance under the MIS program include water resources, sanitation, electric power, transportation (local roads and bridges), communication, and public services such as schools and health clinics. The construction targets established for the \$144 million 4½-year MIS program are:

- Sixty-five municipal infrastructure projects, costing approximately \$1.5 million each, for a total of \$97 million;
- Forty small infrastructure projects, costing about \$2 million in total; and,
- Thirty-two shelter rehabilitation projects with about 200 houses per project that cost about \$7,000 per house, for a total of 6,400 rehabilitated shelters costing \$45 million.

During FY1996, reconstruction of housing was not eligible because USAID funded a \$25 million Emergency Shelter program to rehabilitate existing housing<sup>2</sup>. For FY1997, Congress imposed further restrictions on construction of new housing and the repair or reconstruction of existing housing in Bosnia-Herzegovina unless it directly related to the efforts of U.S. troops to promote peace.

The following section discusses the USAID programs and their implementation status for FY1996 and FY1997.

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<sup>2</sup> See Audit Report No. B-168-97-001-P, "Audit of USAID's Disaster Assistance Activities in Bosnia-Herzegovina," dated January 10, 1997.

### MIS Status - What were funds used for?

As of September 30, 1997, USAID/Bosnia-Herzegovina had obligated about \$115.7 million and disbursed about \$63.7 million to Bosnia-Herzegovina to implement the FY1996 MIS projects and \$52 million to implement FY1997 projects. See Appendix III for additional information on the status of the MIS program and Appendix V for program obligations and disbursements.

Fiscal Year 1996 MIS Program. In the 17 months since the MIS program was authorized, USAID identified and approved 187 projects totaling \$61.7 million (see note a), including:

- 47 major projects valued at \$55.9 million in five public sector areas: energy, transportation, water resources, education, and health.
- 140 small (about \$41,000 each) Community Infrastructure Rehabilitation Projects (CIRPs) with a value of \$5.7 million.

Note a: Due to rounding, total dollars do not add.

Parsons Delaware, Inc., (Parsons) was competitively selected to implement the MIS program and USAID signed a \$20.6 million cost-plus-fixed-fee contract on June 10, 1996. Parsons' advance team arrived in Sarajevo on June 26, 1996, to begin implementing the program. As of September 30, 1997, Bosnia-Herzegovina had transferred about \$58.4 million to Parsons and Parsons had issued:

- 58 subcontracts to implement MIS projects totaling \$15.5 million;
- 128 subcontracts for the CIRPs totaling \$4.7 million; and,
- 156 purchase orders for project commodities valued at \$26.8 million.

Construction was in-progress for 20 of the 47 MIS projects, and the work was essentially complete for the other 27 projects. In addition, subcontractors had completed 115 of the 140 CIRP projects.

Fiscal Year 1997 MIS Program. During this reporting quarter, USAID identified and approved 104 projects totaling \$46.9 million, including:

- 51 major projects valued at \$44.4 million in five public sector areas.
- 53 small (about \$47,000 each) CIRPs with a value of about \$2.5 million.

As of September 30, 1997, Parsons had issued:

- 31 subcontracts to implement MIS projects totaling \$5.3 million;
- 45 subcontracts for the CIRPs totaling \$1.9 million; and,
- 28 purchase orders for project commodities valued at \$5.4 million.

Of the 51 approved MIS projects, construction was in-progress for 40 projects, work had not yet begun for 7 projects and 3 projects were complete. In addition, subcontractors had completed 16 of the 53 CIRP projects. See Appendix III for additional information on the status of the MIS program.

### Results of Audit Tests

This is our fourth report on the MIS program. For this period, our audit work was focused on updating the status of project activities, inspecting projects, and reviewing procedures and testing inventory controls in Parsons' Sarajevo warehouse operation. See Appendix IV for additional information on the results of our audit tests during this period.

End-use Checks. During this period, we performed end-use checks of the 13 Tuzla-managed MIS projects that were reported as 100 percent completed during the fiscal year ended September 30, 1997. Of the 13 project sites visited, 12 projects were being used and one was not being used for its intended purpose, as discussed below,

A total of \$210,598 was budgeted to reconstruct the war-damaged Memici Health Center because Kalesija municipality officials said that the people of Memici had no access to health services. The Municipality assured USAID/Bosnia-Herzegovina that it had the funds, personnel and equipment to operate the center when it was completed. This commitment was reaffirmed when the Kalesija Mayor signed a Memorandum of Understanding with USAID on June 24, 1997, certifying it had the necessary staff and equipment to operate the facility.

The Memici Health Center was officially turned over to the Municipality on September 30, 1997, but as of the mid-November visit by RIG/Budapest, the facility was not being used as a health center. However, one section of the facility was being used by the Belgium Red Cross to conduct sewing classes for women in the local area. According to USAID project personnel, they were told that the Center was not being used as intended because it lacked necessary medical equipment. To help remedy the situation, the Mission worked with the Tuzla Clinical Center and obtained donations of basic medical equipment.

In a letter dated December 12, 1997, the Director of the Health Center informed USAID that they had begun providing medical services in the Memici Health Center. At the time, the Director also requested approval to use three rooms in the facility for activities of the Belgium Red Cross. USAID's response reiterated the conditions under which the MIS project was completed and told the Director that *"the lack of an immediate response to our concerns will mean no more USAID assistance to Kalesija for reconstruction activities."* Furthermore, USAID deferred acting upon the request and suggested that Municipal officials needed to make the Memici Health Center functional.

In a discussion with Mission officials, we pointed out that we did not issue a report of audit finding on the problem of non-use because the situation was similar to that of a previous audit

finding<sup>3</sup> and USAID/Bosnia-Herzegovina had already taken similar corrective action to resolve the Memici problem.

Warehouse Operations. During this period, we also performed a limited review of Parsons' Sarajevo warehouse which was established for the FY1997 Energy/Power Sector projects. Because materials for these projects were estimated to be about \$16 million, Parsons decided that greater control over the materials was warranted, and subcontracted with a local firm to receive, store and issue electrical materials. The fourteen-month subcontract was effective August 27, 1997. In brief, the subcontractor was required to furnish all labor, tools, equipment, supplies, materials, licenses, permits and utility clearances to operate the warehouse, and provide twenty-four hour security services. Warehouse operations began September 1, 1997, and, as of November 24, 1997, the date RIG/Budapest visited the warehouse, the inventory value was about \$3.2 million.

We visited the warehouse to verify its existence and that of the required equipment [photographs on page 7], to discuss control procedures, and to perform an inventory test count. We confirmed that the subcontractor had provided equipment and personnel as agreed. The subcontractor's equipment consisted of a truck, small bus, forklift, small crane, two hand forklifts, and a computer and printer. For the most part, the computer was used to update the inventory list and to prepare the required transit authorizations for delivery drivers. The subcontractor provided 16 personnel to operate the warehouse: including clerks, equipment operators, warehousemen and security guards.

We discussed security procedures and reviewed the guard log books for visitors, deliveries and pickups. We noted that the guard on duty properly recorded our arrival, including vehicle license number. Security procedures seemed adequate and the guard records were properly maintained. We also discussed the paperwork flow for receiving and issuing materials, verified that selected items from the subcontractor's material received log tracked with balances in Parsons' computer files, and confirmed that the subcontractor prepared the proper transit authorizations for materials issued. Finally, we selected 12 line items from the subcontractor's secured-storage area, and reconciled the results of our physical count with both the subcontractor's and Parsons' records.

Based on our limited review of warehouse operations, we concluded that the facility and required equipment exist and that Parsons established satisfactory procedures for material receipt, storage, issuance, and inventory maintenance.

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<sup>3</sup> See Audit Report No. B-168-98-002-P, dated January 9, 1998, for the period April 1 through June 30, 1997.



**Parsons' Sarajevo warehouse; electrical material in the foreground.  
Photograph taken by RIG/Budapest auditor, November 24, 1997.**



**The subcontractor's forklift and more electrical materials inventory.  
Photograph taken by RIG/Budapest auditor, November 24, 1997.**

## Scope and Methodology

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### Scope

The Office of the Regional Inspector General/Budapest is conducting a concurrent audit of USAID's Municipal Infrastructure and Services (MIS) program activities in Bosnia-Herzegovina in accordance with generally accepted government auditing standards. The reporting period for this audit was July 1 through September 30, 1997. The audit was conducted from November 5-26 and December 8-12, 1997, at the USAID offices in Tuzla and Sarajevo, and the Parsons Delaware, Inc., office and warehouse in Sarajevo.

We inspected Tuzla-managed MIS projects which were completed during FY1997 and discussed actions taken to resolve any identified problems. We met with Parsons' Project Property Administrator to discuss operations in the warehouse for energy sector materials.

During this reporting period, we did not audit the MIS program bank accounts maintained by National Bank of Bosnia-Herzegovina or Parsons. Also, we did not audit the program's financial statements that are shown in Appendix V. Furthermore, we did not visit any CIRP projects during this reporting period.

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### Methodology

Audit methodology included file reviews, interviews, field visits and data analysis. We reviewed amendments to the Grant; Agreement between Bosnia-Herzegovina and the United States of America, program documents and contracts, to keep abreast of program objectives and restrictions as determined in previous audits. We interviewed USAID and contractor officials to obtain their views on problems being experienced in the program and the adequacy of actions taken to address these problems.

We visited the 13 Tuzla-managed MIS projects that were completed during the fiscal year ended September 30, 1997. We performed end-use checks through observation and discussions with the USAID engineers and the program coordinator. Eleven of the projects were from the FY 1996 program; two from the FY 1997 program. The budgeted amount for the projects visited was about \$12 million. We also reviewed operations of Parsons' Sarajevo warehouse which was leased to receive, store and issue electrical materials for the FY 1997 MIS projects.

*United States Agency for International Development*  
Sarajevo, Bosnia-Herzegovina

MEMORANDUM

Date: March 17, 1998

To: James R. Bonnell, RIG/A/Budapest

From: Craig G. Buck, Director /s/

Subject: Audit of USAID/Sarajevo's Municipal Infrastructure and Services Program for the  
Period July 1 through September 30, 1997

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We have reviewed the subject draft audit report and continue to be pleased that the on-going audit activities have not uncovered any unforeseen problems with implementation of the program. We are also pleased that implementation of the program continues to move forward as intended.

We have no specific comments to make with respect to this particular report.

We continue our appreciation of and satisfaction with the work of the RIG audit team and their responsiveness to look at areas of concern to us in addition to items included in their overall audit plan of this program. Their work and inputs into program implementation continue to add to the program's success to date.

**Audited Status of the  
Municipal Infrastructure and Services Program  
as of September 30, 1997**

On March 29, 1996, Congress appropriated funds for the economic revitalization of Bosnia-Herzegovina. In May 1996, the Assistant Administrator for the Bureau of Europe and the New Independent States authorized the 4½-year, \$182 million Municipal Infrastructure and Services (MIS) program to assist in Bosnia-Herzegovina's recovery. On June 10, 1996, USAID signed a contract with Parsons Delaware, Inc. (Parsons) to implement the MIS program.

As of September 30, 1997, USAID/Bosnia-Herzegovina had obligated and disbursed about \$115.7 million to Bosnia-Herzegovina for infrastructure projects; about \$63.7 million for the FY1996 program and \$52 million for the FY1997 program. Also, the Mission had approved the transfer of about \$48 million of these funds to Parsons to implement the FY1996 program and \$10.4 million to implement the FY1997 program.

Table A shows the construction targets and estimated cost established for the 54-month MIS implementation period as well as the number of projects and the value of approved budgets for the FY1996 and FY1997 programs. As of September 30, 1997, USAID/Bosnia-Herzegovina had approved 187 projects for FY1996 and 104 projects for FY1997.

**TABLE A  
COMPARISON OF PLANNED MIS PROGRAM AND  
APPROVED PROGRAM FOR FYS 1996 AND 1997  
AS OF SEPTEMBER 30, 1997**

Type of Project	Number of Planned Projects	Number of Approved Projects FY1996	Number of Approved Projects FY1997	Total Estimated Cost	Value of Approved Budgets FY1996	Value of Approved Budgets FY1997
Municipal Infrastructure	65	47	51	\$97,000,000	\$55,946,882	\$44,384,000
CIRPs	40	140	53	2,000,000	5,747,264	2,494,848
Shelter	32	0	0	45,000,000	0	0
<b>Totals</b>	<b>137</b>	<b>187</b>	<b>104</b>	<b>\$144,000,000</b>	<b>\$61,694,146</b>	<b>\$46,878,848</b>

Also, as shown in Table A [previous page], the total value of the approved budgets for the two fiscal years of the MIS program accounts for more than \$108 million, or about 75 percent, of the total estimated cost of \$144 million. Furthermore, 291 projects have been approved—considerably more than the 137 originally planned. The shelter rehabilitation projects have not started because of the Congressional ban on construction of new housing and the repair or reconstruction of existing housing in Bosnia-Herzegovina. Table B below and Table C on page 4 of this appendix provide more detailed information on the actual progress of the two fiscal year programs, i.e., the amount and number of approved contracts.

**Fiscal Year 1996 Program**

As presented in Table B, USAID/Bosnia-Herzegovina identified projects totaling \$61.7 million for funding the FY1996 program. The projects included 47<sup>4</sup> major projects in five public sector areas and 140 small Community Infrastructure Rehabilitation Projects (CIRPs) that were recommended for funding by Implementation Force (IFOR) personnel. As of the end of September 1997, Parsons had signed 342 subcontracts and purchase orders valued at about \$47 million.

**TABLE B**  
**FY 1996 MIS PROGRAM**  
**AS OF SEPTEMBER 30, 1997**

Project Sector	Budget Identified	Projects Approved	Amount of Contracts	Contracts Approved
Energy	\$38,786,770	21	\$27,283,722	164
Transportation	6,994,511	8	6,068,827	12
Water Resources	5,972,017	7	5,117,313	20
Education	2,443,565	8	2,079,890	8
Health	1,750,019	3	1,651,437	7
CIRPs	5,747,264	140	4,799,275	131
<b>Totals</b>	<b>\$61,694,146</b>	<b>187</b>	<b>\$47,000,464<sup>5</sup></b>	<b>342<sup>5</sup></b>

<sup>4</sup> Thirty-six projects were identified for the quarter ended June 30, 1997. However, during the quarter ended September 30, 1997, the Mission approved an additional eleven MIS projects with a budget of almost \$6.2 million.

<sup>5</sup> This amount includes \$20,228,115 for 186 subcontracts and \$26,772,349 for 156 commodity purchase orders.

For the FY1996 program, 10 MIS and 12 CIRP projects were completed during this quarter. Therefore, through September 30, 1997, 27 MIS projects and 115 CIRPs had been completed. The ten MIS projects completed this period are:

- Gradacac, 96-1-B. This energy project was budgeted for \$697,428 to reconnect three villages to the municipal grid. Total payments by Parsons as of September 30, 1997, were \$628,306; including \$571,932 for purchase orders and \$56,374 for demining.
- Doboj, 96-1-C. The budget for this energy project was about \$1.7 million to reconstruct a substation and restore power to various villages in Doboj. Total payments by Parsons as of September 30, 1997, were \$1,644,608; including \$314,458 for subcontracts, \$1,289,791 for purchase orders and \$40,359 for demining.
- Olovo, 96-1-D. The budget for this energy project was \$300,915 to re-string power lines and repair a substation. Total payments by Parsons as of September 30, 1997, were \$289,336; including \$275,483 for purchase orders and \$13,853 for demining.
- Zavidovici, 96-1-L. The energy sector project budget for the installation of underground cable was \$180,335. Total payments by Parsons as of September 30, 1997, were \$171,480; including \$36,231 for subcontracts, \$114,761 for purchase orders and \$20,488 for demining.
- Begov Han Bridge, 96-2-E. This transportation sector project was budgeted at \$623,585 to construct a two-lane highway bridge over the Bosna River. Total payments by Parsons as of September 30, 1997, were \$623,585; including \$618,510 for subcontracts and \$5,075 for demining.
- Dike Reconstruction, 96-3-A. The water resources sector project budget was \$2,011,500 for the reconstruction of the river dike and drainage canals and the rehabilitation of pumping stations. Total payments by Parsons as of September 30, 1997, were \$1,922,505; including \$1,590,516 for subcontracts and \$331,989 for demining.
- Zavidovici Municipal Water System, 96-3-D. The water resources sector project was budgeted for \$81,919 to reconstruct the main water lines from the municipal water system to two villages. Total payments by Parsons as of September 30, 1997, were \$133,474; including \$46,800 for subcontracts, \$77,852 for purchase orders, and \$8,822 for demining.
- Kalesija, 96-4-A. This education sector project was budgeted at \$420,383 to rehabilitate the secondary school which was heavily damaged during the war. Total payments by Parsons as of September 30, 1997, were \$396,634; including \$374,819 for subcontracts and \$21,815 for demining.

- Memici Health Center, 96-5-B. The health sector project budget for the reconstruction of an inoperative village health center in an area where USAID had financed shelter reconstruction was budgeted for \$210,598. Total payments by Parsons as of September 30, 1997, were \$210,597; including \$194,908 for subcontracts and \$15,689 for demining.
- Kosevo, 96-5-C. The health sector project was budgeted for \$690,227 to repair medical buildings and to install a new water supply system. Total payments by Parsons as of September 30, 1997, were \$592,262; including \$566,140 for subcontracts and \$26,122 for demining.

The value of the 12 CIRPs completed during this period is \$546,603 and represents about 10 percent of the planned small community projects for the FY1996 program.

**Fiscal Year 1997 Program**

As shown in Table C, USAID/Bosnia-Herzegovina identified projects totaling approximately \$46.9 million for funding the FY1997 program. The projects included 51 major projects in five public sector areas and 53 small CIRPs that were recommended for funding by Stabilization Force (SFOR) personnel. As of September 30, 1997, Parsons had signed 104 subcontracts and purchase orders valued at about \$12.6 million.

**TABLE C**  
**FY 1997 MIS PROGRAM**  
**AS OF SEPTEMBER 30, 1997**

<b>Project Sector</b>	<b>Budget Identified</b>	<b>Projects Approved</b>	<b>Amount of Contracts</b>	<b>Contracts Approved</b>
Energy	\$22,003,000	22	\$5,675,484	27
Transportation	5,550,000	5	2,961,211	16
Water Resources	13,561,000	16	1,241,059	6
Education	990,000	4	652,624	9
Health	2,280,000	4	226,958	1
CIRPs	2,494,848	53	1,891,289	45
<b>Totals</b>	<b>\$46,878,848</b>	<b>104</b>	<b>\$12,648,625<sup>6</sup></b>	<b>104<sup>6</sup></b>

<sup>6</sup> This amount includes \$7,219,497 for 76 subcontracts and \$5,429,128 for 28 commodity purchase orders.

For the 1997 program, three MIS projects were completed during this quarter as discussed below:

- Banovici Power, M7TZP15a. This power sector project was budgeted at \$70,000. Total payments by Parsons as of September 30, 1997, were \$66,177; including \$64,555 for subcontracts and \$1,622 for demining.
- EP Sarajevo Equipment, M7SAP23. This power sector project was budgeted at \$400,000. Total payments by Parsons as of September 30, 1997, were \$388,672 for purchase orders.
- Memici Primary School, M7TZeE040. This education sector project was budgeted at \$110,000. Total payments by Parsons as of September 30, 1997, were \$88,265 for subcontracts.

The value of the 16 CIRPs completed during this period is \$704,253 and represents slightly more than 28 percent of the planned small community projects for the FY1997 program.

<p><b>Audit Test Results</b> <i>for the reporting period</i> <i>July 1 through September 30, 1997</i></p>
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During this reporting period, we visited 13 Tuzla-managed MIS projects that were reported as 100 percent completed during the fiscal year ended September 30, 1997. Eleven projects were from the FY1996 program and two projects were from the FY1997 program. We visited the projects to perform end-use checks and, in all but one instance, the projects were being used as intended.

One project was not being used as a health center despite assurances from the Municipality that it had the funds, personnel and equipment to operate the center once it was completed. A discussion of the problem and the Mission's remedial actions was provided on page 5 of the report. The construction status of all projects visited follows.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Kalesija Substation [96-1-A]	Rehabilitate power lines from Tojsici to Kalesija, including reconstruction of the substation and restoration of electric power to selected villages.	\$2,340,570	<u>Completed during quarter ended June 30, 1997.</u> The substation is operating and supplying power as planned. Some of the control room equipment will be moved to Tuzla to allow for remote control of the substation from Tuzla. Staff perform daily site-checks of the substation.
Gradacac Power [96-1-B]	Reconnect three villages to the municipal power grid and provide power to a village water system.	\$697,428	<u>Completed during quarter ended September 30, 1997.</u> USAID funded the materials, all of which have been delivered. The installations are essentially complete.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
<p>Doboj Federation Power [96-1-C]</p>	<p>Reconstruct substation to restore power to various villages in Doboj South.</p>	<p>\$1,695,541</p>	<p><u>Completed during quarter ended September 30, 1997.</u> All work for the substation was completed and two low voltage networks were connected, but some minor equipment malfunctions were discovered. The USAID senior engineer said that he expected equipment testing to be completed within 20 days and cable connections completed within 7 days.</p>
<p>Zivinice-Petrovinice Road [96-2-A]</p>	<p>Rehabilitate a 15.4 kilometer road that links the Tuzla airport with various municipalities in the area.</p>	<p>\$2,952,762</p>	<p><u>Essentially completed during quarter ended December 31, 1996.</u> The areas needing "patching" were completed by the subcontractor as were the road re-striping and safety markings.</p>
<p>Gradacac Bridges [96-2-C]</p>	<p>Reconstruct three small bridges to link two villages to the town proper.</p>	<p>\$184,099</p>	<p><u>Completed during quarter ended March 31, 1997.</u> Work was completed at three sites and included reinforcing a bridge, installing culverts, and reconstructing a bridge and roadway.</p>

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Tuzla Landslide Stabilization and Prevention [96-2-G]	Clean up landslide debris and install retaining walls and other control and prevention devices.	\$395,004	Completed during quarter ended March 31, 1997. We visited each of the three locations to observe the completed work. Work at two sites consisted of concrete retaining walls and metal railings. Work at the third site consisted of a drainage system and a "wall" of compacted earth and stones.
Prud Bosna/Sava River Dike [96-3-A]	Reconstruct the river dike to prevent flooding of agricultural land in Federation territory. Also, reconstruct drainage canals and rehabilitate pumping stations.	\$2,011,500	Completed during quarter ended September 30, 1997. This project originally consisted of three parts: (1) Cody Crater, which was subsequently canceled, (2) Bosna River main dike and (3) five sluice gates. We visited the crater, the main dike and one of the sluice gates. All work was completed on the main dike and the engineers were inspecting the sluice gates.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
<p>Kalesija Secondary School [96-4-A]</p>	<p>Reconstruct the secondary school.</p>	<p>\$420,383</p>	<p><u>Completed during quarter ended September 30, 1997.</u> The school operates in two shifts serving about 1200 students. The facility has 11 classrooms, 2 offices, and 1 teachers' room. Because of the shift change, we did not observe any classes in session during our tour, but, by the end of our tour, did see children arriving for the afternoon session. We noticed some areas of peeling paint and were told that the contractor will repaint when the walls dry.</p>
<p>Memici Primary School [96-4-B]</p>	<p>Reconstruct the primary school.</p>	<p>\$584,146</p>	<p><u>Completed during quarter ended March 31, 1997.</u> The school operates in two shifts serving about 400 students. The facility has 14 classrooms and we observed several of the classes that were in session. We noticed a few small areas of peeling paint due to humidity. The Director told us that the contractor had left some paint and that the handy man would do touch up when the walls dry.</p>

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Tuzla Heating Systems for Two Schools [96-4-E-1&-2]	Install heating systems, consisting of a package boiler and supply return piping, for two elementary schools in the Tuzla Canton.	\$264,153	<u>Completed during quarter ended March 31, 1997.</u> We visited both the Centar and the Novi Grad schools on a cold, dreary day, and the heating systems were functioning well. Both Directors were pleased with the results, commenting that maintenance and pollution were no longer problems.
Memici Health Center [96-5-B]	Reconstruct an inoperative village health center.	\$210,598	<u>Completed during quarter ended September 30, 1997.</u> The facility was not being used as a health center at the time of the November 1997 visit [see page 5].
Banovici Power [M7TZP15a]	Replace three 220kva transmission towers.	\$70,000	<u>Completed during quarter ended September 30, 1997.</u> Installation of the three transmission towers was completed.
Heating for Memici Primary School [M7TZeE040]	Install a new central heating system in the primary school.	\$110,000	<u>Completed during quarter ended September 30, 1997.</u> The new heating system, which included a coal boiler, piping, radiators and storage for coal, was functioning well as the school was comfortably warm. The Director pointed-out one broken radiator pipe, but noted that the subcontractor had already looked at the damage; the work is still under warranty.

<b>Unaudited MIS</b> <b>Fund Accountability Statement</b> <i>as of September 30, 1997</i>
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The amount USAID/Bosnia-Herzegovina has budgeted, obligated, and disbursed for the MIS program is shown below. The amount disbursed for projects represents transfers that were made by Bosnia-Herzegovina to the contractor. The disbursed implementation costs are amounts paid by USAID.

	<b>4½ Year Program Budget</b>	<b>Amount Obligated</b>	<b>Amount Disbursed</b>
Infrastructure Projects	\$144,000,000	\$115,650,000	\$58,374,926
Implementation Costs:			
Parsons Contract	31,000,000	15,446,730	11,532,305
Audit, Program, and Evaluation	1,800,000	1,067,331 <sup>7</sup>	646,169 <sup>7</sup>
USAID Program Management	2,200,000	1,898,240	724,997
Contingencies	<u>3,000,000</u>	<u>0</u>	<u>0</u>
Totals	<u>\$182,000,000</u>	<u>\$134,062,301</u>	<u>\$70,778,397</u>

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<sup>7</sup> The total amounts obligated (\$2,134,662) and disbursed (\$1,292,338) were equally divided between the MIS and Bosnian Reconstruction Finance Facility programs (see Audit Report No. B-168-98-004-P).

## Background

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### Background

Bosnia-Herzegovina declared its independence from the former Socialist Republic of Yugoslavia in March 1992, following the lead of Slovenia and Croatia which declared independence in 1991. The move to independence precipitated a war in Bosnia-Herzegovina that lasted from 1992 to the Dayton Agreement of October 10, 1995.

The war in Bosnia-Herzegovina was fought among three major ethnic/religious groups—Bosniacs (Muslims), Serbs (Eastern Orthodox Christians), and Croats (Roman Catholics). The Dayton Agreement defined Bosnia as a single state consisting of two entities:

- the Federation of Bosnia which joins together the areas controlled by Bosniacs and Bosnian Croats; and
- the Republic of Srpska which consists of the Bosnian Serbs.

Bosnia remains both politically and ethnically divided where freedom of movement across ethnic boundaries is constrained.

The Dayton Agreement viewed economic rehabilitation and reconstruction as an essential element to the peace process. The Agreement negotiators believed that the people must have an economic stake in the process, therefore, economic reconstruction, economic institution building, and promotion of a market economy were deemed major factors to ensuring a lasting peace. In 1996, 59 donor countries and organizations pledged \$1.9 billion to the reconstruction program and by the end of the year there were many signs of economic recovery. For example, road and rail links were being restored, housing repaired, and basic services such as water and heating were reestablished.

After the war, Bosnia-Herzegovina was faced with consolidating the peace and reconstructing its war-torn economy, an enormous task as evidenced by the following problems:

- At least 2.4 million people needed assistance out of the population of three million. There were more than 300,000 pensioners, 120,000 disabled, 140,000 orphans and widows, 800,000 displaced persons, and more than one million returning refugees.

- More than 60 percent of the apartments were destroyed, and in some municipalities, the number was higher.
- More than 50 percent of the health facilities were damaged, and the number of hospital beds dropped by 50 percent during the war from six per 1,000 to three per 1,000.
- Damage of water and sewer networks posed a major public health hazard.

In addition to financing needed repairs to the infrastructure and providing social services, the government faced large private claims and large claims for wages and pensions. The economy was demonetized during the war when doctors, teachers, and other public sector professionals did not receive wages for three years.

House Joint Resolution 170 (Public Law 104-122) appropriated \$198 million for Bosnia-Herzegovina on March 29, 1996. These funds are to be used for economic revitalization (\$145 million), police training and monitors (\$45 million), demining (\$5 million), and operating expenses (\$3 million).