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FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S ACCELERATING SUSTAINABLE AGRICULTURE PROGRAM

AUDIT REPORT NO. 5-306-08-009-P
August 8, 2008

MANILA, PHILIPPINES



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FROM THE AMERICAN PEOPLE

Office of Inspector General

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MEMORANDUM

TO: USAID/Afghanistan Director, Michael Yates

FROM: Acting Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program
(Audit Report No. 5-306-08-009-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in appendix II.

This report contains 15 recommendations to assist USAID/Afghanistan to improve its oversight of the Accelerating Sustainable Agriculture Program. Based on the information provided by the mission in response to the draft report, we consider that final actions have been taken on recommendation nos. 1, 4, 8, 9, 12 and 13 upon issuance of this report. In regard to recommendation nos. 2, 3, 5, 6, 7, 10, 11 and 14, management decisions have been reached and determinations of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

A management decision has not yet been reached on recommendation no. 15. The mission intends to reach a management decision within 30 days, at which time it will submit its decision to our office for evaluation.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

Afghanistan, a country that once boasted of an agriculture sector that provided more than 80 percent of the nation's income, has become heavily dependent on food aid from international donors. To deal with ongoing political instability and economic hardship, farmers turned to the cultivation of opium poppy to provide much-needed income. In an effort to respond to this agricultural crisis, USAID/Afghanistan launched its Accelerating Sustainable Agriculture Program (program) in the northern, northwestern, and western provinces to accelerate broad-based, market-led agriculture development capable of responding and adapting to market forces in ways that provide new economic opportunities for rural Afghans. The program, implemented by Chemonics International, Inc. (Chemonics) under a \$102 million contract, started in November 2006 and has an expected end date of November 2010. USAID/Afghanistan measured progress under this program against eight performance indicators. The Regional Inspector General/Manila conducted an audit of this program to determine if it is achieving intended results, and what the impact has been (see page 3).

Chemonics reported results for all eight indicators for the first year of the program. However, the audit identified that for two of the eight indicators, reported results fell considerably short of intended results. Targets had not been established for the other six indicators making it difficult to tell how well the project was proceeding. In addition, Chemonics did not have documentation to adequately support reported results for six indicators. In two of the six cases, the support was inadequate, while in four cases there was no support at all. For example, Chemonics had inadequate support for the reported result that 1,719 individuals had received short-term agricultural training, and no support for the reported result that project activities had generated an economic value in excess of \$59 million. In addition, the audit found that a major program activity—the Mazar foods initiative—was behind schedule. This \$40 million initiative to cultivate 10,000 hectares for a commercial farm was not finalized in time to take advantage of the summer planting season as initially planned (see page 4).

Because the program began on November 22, 2006, it is too early to judge whether it is succeeding in accelerating broad-based market-led agricultural development in areas of Afghanistan where it is being implemented. However, the audit identified the following issues that have affected the mission's management of the program during the first year (see page 4):

- Mazar foods initiative—a key agricultural activity—has experienced significant delays (see page 6).
- Environmental evaluations and assessments were not conducted in accordance with regulations (see page 8).
- Significant defects in constructed buildings have delayed handover to the Government of Afghanistan (see page 10).
- Chemonics did not comply with USAID's branding and marking requirements (see page 13).
- Chemonics did not have adequate support for reported results (see page 15).
- Chemonics purchased restricted commodities without prior written approval (see page 16).

- Chemonics did not account for program income in accordance with regulations (see page 16).
- Mission approved an incomplete performance management plan (see page 17).
- Chemonics' performance reports were not in accordance with the contract terms (see page 19).

If these issues are not addressed, they could continue to affect the program as it progresses through the remaining 3 years. Notwithstanding these issues, the program did have successes in a few areas. For example, the program trained para-veterinarians, helped establish agricultural supply stores, and funded agricultural fairs in several provinces (see page 4).

This report contains 15 recommendations to assist USAID/Afghanistan to improve its oversight of the Accelerating Sustainable Agriculture Program. Based on the information provided by the mission in response to the draft report, we consider that final actions have been taken on recommendation nos. 1, 4, 8, 9, 12, and 13 upon issuance of this report. In regard to recommendation nos. 2, 3, 5, 6, 7, 10, 11, and 14, management decisions have been reached. A management decision has not yet been reached on recommendation no. 15. The mission intends to reach a management decision within 30 days, at which time it will submit its decision to our office for evaluation. USAID/Afghanistan's written comments are included (without attachments) as appendix II to this report.

BACKGROUND

Agriculture is the most important sector in Afghanistan—about 80 percent of the country's population depends on agriculture and related activities for their livelihoods. More than 20 years of conflict, exacerbated by years of drought, have ruined the Afghan agriculture economy. As a result, rural infrastructure, such as irrigation and roads, is in disrepair, and improved agricultural technologies have not been adopted for decades. A country that once boasted an agriculture sector that contributed to more than 80 percent of the national income has become heavily dependent on food aid from international donors. To deal with political instability and economic hardship, farmers turned to the cultivation of opium poppy to provide much-needed income.

In an effort to respond to this agricultural crisis, USAID/Afghanistan launched its Accelerating Sustainable Agriculture Program (program) in the northern, northwestern, and western provinces to accelerate broad-based, market-led agriculture development capable of responding and adapting to market forces in ways that provide new economic opportunities for rural Afghans. To implement this program, in November 2006, USAID/Afghanistan awarded a \$62 million contract to Chemonics International, Inc., with an expected end date of March 2010.

The program is structured to link rural producers with markets, make agricultural production more efficient, help farmers and private sector entrepreneurs, add value to agricultural raw materials, and harness market opportunities. The program has two primary objectives. The first is to accelerate relevant technology transfer, with a focus on marketing high-value commodities, competitiveness, sustainability, and natural resource management. The second is to improve the Afghan Government's capacity to formulate agriculture-sector policies and strategies and carry out the administrative and financial coordination needed to support more competitive, market-led agriculture production. The program's secondary objective is to provide alternatives to poppy production.

In November 2007, supplemental funding increased the contract ceiling to \$102 million with an end date of November 2010. As of December 31, 2007, USAID/Afghanistan had obligated \$77 million and disbursed \$16 million for the program activities.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2008 annual audit plan to answer the following question:

- Is USAID/Afghanistan's Accelerating Sustainable Agriculture Program achieving intended results, and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Afghanistan measured its progress under the Accelerating Sustainable Agriculture Program (program) against eight performance indicators. Chemonics International, Inc. (Chemonics) reported results for all eight indicators for the first year of the program. However, the audit identified that for two of the eight indicators, reported results fell considerably short of intended results. Targets had not been established for the other six indicators making it difficult to tell how well the project was proceeding. In addition, Chemonics did not have adequate documentation to support the achievement of reported results for six indicators, so the audit team was unable to verify that reported results had been achieved. In two of the six cases, the audit team judged the available support to be inadequate, while in four cases there was no support at all. For example, Chemonics had inadequate support for the reported result that 1,719 individuals had received short-term agricultural training, and no support for the reported result that project activities had generated an economic value in excess of \$59 million. In addition, the audit found that a major program activity—the Mazar foods initiative—was behind schedule. This \$40 million initiative to cultivate 10,000 hectares for a commercial farm was not finalized in time to take advantage of the summer planting season as initially planned.

A complete list of the eight indicators and the program's actual results, as of December 31, 2007, is included as appendix III to this report.

Because the program began on November 22, 2006, it is too early to judge whether it is succeeding in accelerating broad-based market-led agriculture development in areas of Afghanistan where it is being implemented. However, as discussed starting on page 6, the audit identified nine areas that have affected the mission's management of the program during the first year. If these areas are not addressed, they could continue to affect the program as it progresses through the remaining 3 years.

The audit did recognize that the program has experienced some successes, such as establishing veterinary field units and retail stores that provide agricultural supplies such as certified seeds. The program has also experienced positive results in sponsoring four agricultural fairs.

For example, under the program, 38 Afghans were trained as para-veterinarians and provided with basic veterinary equipment such as solar refrigeration units and vaccines to establish new veterinary field units. Additional refresher training was provided to existing para-veterinarians. As a result of these efforts, approximately 7.8 million vaccinations and medicines were administered.

In addition, the program provided funds to establish 154 agricultural supply stores, creating 165 jobs. These stores are critical for providing local farmers with high-quality products such as certified seeds and fertilizers, replacing the poor-quality and low-yielding seeds that farmers traditionally purchased at local markets.



Photograph of renovated agricultural supply store in Parawan Province.
(Office of Inspector General, April 2008)

Finally, the program provided funding to build permanent agricultural fair sites in Kabul and Balkh provinces. During calendar year 2007, the program funded three agricultural fairs on these sites, and another at a temporary location in Herat province. These agricultural fairs had tremendous symbolic value as a celebration of “what is working” in Afghanistan agriculture. For example, the benefits of new agricultural techniques such as drip irrigation and using grape trellis posts to increase crop yields were demonstrated at the fairs. The fairs also offered a sense of community life returning to normal following years of conflict, and provided an opportunity for vendors and potential buyers to interact with one another to find new markets for their products.

Although the program experienced some successes in a few activities, the audit identified nine areas discussed below that have affected the mission’s management of the program during the first year. If these areas are not addressed, they could continue to affect the program as it progresses through the remaining 3 years.

Implementation of Mazar Foods Initiative Falling Behind Schedule

Summary: The mission modified its contract with Chemonics, adding a \$40 million activity—the Mazar foods initiative—to expand the operations and impact of the program by establishing a commercial food production enterprise. The mission's initial agreement with the Government of Afghanistan was to have the commercial farm operational by the summer of 2008. The schedule for the Mazar foods initiative was not implemented as planned to take advantage of the summer 2008 planting season. From the onset of this project, a number of issues affected the implementation schedule. First, the mission's statement of work, included as part of the November 2007 contract modification, lacked specificity on expected deliverables and timeframes to monitor Chemonics' progress. Second, the mission's initial investment partner did not materialize as planned. Finally, the program lacked two key program personnel critical for managing this project. As a result, the mission may not be able to provide planned jobs to local Afghans, and sales from crop harvests may not materialize.

The mission modified its contract with Chemonics in November 2007, increasing the total estimated cost from \$62 million to \$102 million to incorporate the Mazar foods initiative. This initiative was to expand the operations and impact of the program by establishing a commercial food production enterprise that would be run as a legal corporation in Afghanistan. The \$40 million project would develop 10,000 hectares of commercial farmland in the northern province of Balkh with expected results to increase employment by 10,000 full-time jobs and 5,000 temporary jobs, and to increase knowledge of modern production techniques, agricultural products, and food marketing techniques. Chemonics' plan was to cultivate 2,500 hectares of land per quarter starting in January 2008. To achieve these results; Chemonics was contracted to design, manage, and implement a business plan to develop a commercial farm to be operational by the summer of 2008.

The schedule for the Mazar foods initiative was not implemented as planned to take advantage of the summer 2008 planting season. Although initial planning began as early as March 2007 and culminated in the November 2007 contract modification, as of April 2008, the Mazar foods initiative was still in the design phase, with no definitive milestone dates for completion. In April 2008, Chemonics had just begun to request proposals for a comprehensive design plan for the entire Mazar foods farm, including all greenhouses, washing, packing, processing, and administrative facilities and supporting infrastructure. Initially, this plan was scheduled to take place in November and December 2007. As well, Chemonics planned to have the organization legally registered as a corporation in Afghanistan in December 2007. However, according to Chemonics' April 2008 status report, this step may be completed as late as September 2008.

From the onset of this project, a number of issues affected the implementation schedule. First, the mission's statement of work included as part of the November 2007 contract modification lacked specificity on expected deliverables and timeframes against which to monitor Chemonics' progress. Second, the mission's initial investment partner did not materialize as planned. Finally, the program lacked two key program personnel critical for managing this project.

The mission's statement of work included as part of the November 2007 contract modification lacked specific information on expected key deliverables and timeframes to monitor Chemonics' progress. For example, key deliverables underlying timely implementation of the Mazar foods initiative were the completion and acceptance of a business plan, compliance with specific environmental requirements, and a clearly defined plan for establishing the legal organization responsible for the Mazar commercial farm. However, the mission's statement of work for this \$40 million project was captured on one page, with brief descriptions of the program, program goals, objective, and expected results, and a short synopsis of the technical approach. As a result, the mission lacks specific contractual stipulations to manage Chemonics' progress. As of April 2008, the environmental work, required before work can commence on the land, is in its initial stages, and the legal framework for how the organization will be incorporated is not in place.

The Mazar foods initiative was initially planned based on an understanding by USAID, the Afghan Government, and the Overseas Private Investment Corporation, that Dole Food Company, Inc. (Dole) would contribute oversight, management guidance, technical advice, and direction for the production of high-quality fruits and vegetables, as well as purchase a portion of the resulting output. However, in July 2007, Dole decided not to participate. This required the mission to find other donors to provide technical assistance, and considerable time was lost identifying alternative partners.

The program lacked two key program personnel critical for managing this project. The contract modification added two key personnel to support this program—the Mazar Foods Coordinator and Deputy Coordinator, both of whom the mission expected Chemonics to recruit and hire. Chemonics made an offer to one candidate who turned down the position. Because recruiting has primarily focused on internal candidates and a few external candidates, Chemonics did not have a large pool of qualified candidates for the positions.

These issues have had a significant impact on the mission's overall objectives for this program. The mission may not be able to provide planned jobs to local Afghans. Table 1 lists the number of Afghans this project planned to employ in calendar year 2008 if the Mazar foods initiative had not been delayed:

Table 1. Number of Afghans Planned to Be Employed in Agriculture Activities 2008

May	June	July	Aug	Sep	Oct	Nov	Dec
806	1,475	1,786	1,674	590	590	424	447

The delay also caused a reduction in potential sales and exports of harvested crops. According to the most recent revenue model, the farm was expected to generate gross revenues of \$21.6 million for calendar year 2008.¹ The mission's plan was to use the revenue to pay for costs incurred in the first year of operations as well as future costs of operating and expanding the corporation. The longer it takes to finalize and implement this program, the longer revenue will be delayed or forgone. This revenue is needed to help recoup the initial startup costs of the Mazar foods initiative corporation. Therefore,

¹ Revenue model and projected revenue were not audited.

this audit makes the following recommendation:

Recommendation No. 1: We recommend that the USAID/Afghanistan cognizant technical officer prepare an implementation plan identifying the critical tasks needed to implement the Mazar foods initiative. This implementation plan should identify all tasks that are behind schedule and show how the mission is going to address the delay. Further, the mission should develop a process for periodically updating the implementation plan.

Mission Was Not in Compliance With Environmental Procedures

Summary: Federal regulations require that USAID ensure that environmental consequences of USAID-financed activities are identified and considered prior to a final decision to proceed, and that appropriate environmental safeguards be adopted. The mission did not always comply with environmental procedures for the following reasons: (1) the mission placed emphasis on the strategic objective-level evaluations, (2) the cognizant technical officer lacked awareness of the required duties for overseeing compliance with environmental procedures, (3) there were inconsistencies between the Automated Directives System (ADS) and a Mission Order regarding the roles and responsibilities of cognizant technical officers, (4) the mission and Chemonics lacked a dedicated environmental officer, and (5) the program had compressed timeframes on projects. Without proper environmental reviews, USAID/Afghanistan will not be able to ensure that proper environmental safeguards are adopted and incorporated into development projects.

Federal Regulation 22 CFR 216, "Environmental Procedures," requires USAID to ensure that the environmental consequences of USAID-financed activities be identified and considered prior to a final decision to proceed, and that appropriate environmental safeguards be adopted. Activities that automatically require an environmental assessment include agricultural land leveling, use of pesticides, and irrigation and water management projects. Both USAID's ADS 204 and a mission order outline the mission's responsibility for complying with the regulation. According to USAID policy, it is the mission's responsibility to take steps to ensure that resources are not committed to programs or activities before environmental reviews are completed and approved in writing and that findings are incorporated into the design and budget for the program or activity. The mission is also required to modify or end activities that are not in compliance with environmental procedures.

The mission did not always comply with environmental procedures. Specifically, the mission's initial environmental evaluation did not include a separate section on the impact of pesticides use. Also, the mission did not require Chemonics to prepare environmental assessments prior to installing septic systems, grading property, installing permanent structures, and constructing a reservoir to store irrigation water. Further, during the audit fieldwork, Chemonics was drilling test wells but had yet to comply with the environment procedures. Chemonics also used or assisted with the use of pesticides on two specific programs without completing proper environmental assessments.

These incidents happened because the mission placed emphasis on the strategic objective level-evaluations, the cognizant technical officer lacked awareness of the required duties for overseeing compliance with environmental procedures, there were inconsistencies between the ADS and a Mission Order regarding cognizant technical officer roles and responsibilities, the mission and Chemonics lacked a dedicated environmental officer, and the program had compressed timeframes on projects.

According to the mission's current environmental officer, contrary to USAID policy, the mission focuses its initial environmental evaluations at the strategic objective level covering multiple programs. Using this approach makes it difficult to cover every possible environmental scenario, especially for large strategic objectives covering wide areas of Afghanistan. The cognizant technical officer commented that when the mission performed the initial environmental evaluation at the strategic objective level, in August 2005, it did not envision creation of a project such as the one designed under the Mazar foods initiative or projects requiring pesticides.

Additionally, mission personnel responsible for monitoring programs were not fully aware of the environmental requirements. According to mission officials, representatives from USAID/Washington provided training to mission staff; however, because of the turnover at the mission, the personnel who took the training have rotated and have been replaced with individuals who need to be trained. The mission does not provide internal training on environmental regulations to incoming staff. Further, both the mission and Chemonics lacked a dedicated environmental officer to oversee compliance with the environmental regulations. The mission has begun the process of hiring an environmental officer who will be responsible for advising the mission on how to comply with environmental requirements.

Inconsistencies between ADS 204 and Mission Order 04-14 resulted in unclear direction on roles and responsibilities. USAID's policy identifies the cognizant technical officer as the one responsible for managing environmental requirements. On the other hand, the mission's internal procedure places the responsibilities for environmental compliance with the strategic objective team, not the cognizant technical officer who has technical oversight of the activity. As a result, the cognizant technical officers are not clear as to their roles and responsibilities.

Finally, Chemonics and the mission both commented that certain projects under the program operated under tight timeframes, which prevented full compliance with the environmental regulations. For example, the U.S. Embassy wanted an agricultural fair in the spring of 2007, and as a result Chemonics had fewer than 60 days to clear a construction site and to build or renovate permanent structures for the site in Kabul.

Without proper environmental reviews, USAID/Afghanistan will not be able to ensure that proper environmental safeguards are adopted and incorporated into development projects. The result could be environmental damage or injuries to workers on the program and beneficiaries. Further, the mission committed resources for construction work on the Mazar foods initiative, ministry buildings, permanent structures for the agricultural fair sites, and a demonstration farm before environmental reviews were completed. Therefore, this audit makes the following recommendations:

Recommendation No. 2: We recommend that USAID/Afghanistan require its environmental officer to provide annual training to cognizant technical officers and require mission personnel to comply with the environmental regulations outlined in Mission Order 04-14 and USAID's Automated Directives System 204.

Recommendation No. 3: We recommend the USAID/Afghanistan revise its Mission Order to be consistent with USAID's Automated Directives System 204 defining cognizant technical officer responsibilities for monitoring compliance with environmental regulations.

Recommendation No. 4: We recommend that USAID/Afghanistan obtain a written legal decision from its general counsel on how to proceed for completed and in-process projects where environmental regulations were not followed.

Constructed Buildings Contained Numerous Defects

Summary: Chemonics' construction subcontracts' statement of work included the specifications required to meet USAID quality standards for acceptable construction and handover of five buildings to the Afghan Government. However, buildings constructed by Chemonics' subcontractors were not acceptable because of significant construction defects. The construction problems resulted from a lack of detailed review of initial design plans by a qualified engineer and the lack of daily engineering oversight at construction sites. Because these construction projects were not monitored carefully, numerous problems existed that could have affected the safety of the occupants.

Beginning in May 2007, Chemonics awarded firm fixed-price subcontracts totaling \$458,077 to four subcontractors to construct five buildings for the Ministry of Agriculture Irrigation and Livestock, as illustrated in table 2. The subcontracts' statements of work included the specifications required to meet USAID quality standards for acceptable handover to the Afghan government. Once handed over to the ministry and in full operation, these buildings would facilitate training opportunities on agricultural topics, contributing directly to the program goals of training individuals and indirectly to the number of rural households benefiting from U.S. Government interventions.

At the completion of construction, the mission inspected the buildings and determined that they were unacceptable to turn over to the government for use by the ministry provincial staff. In September 2007, engineers from the mission's Office of Infrastructure, Engineering and Energy inspected the buildings and prepared detailed lists of items requiring corrections. Typical construction problems cited on the lists included the following:

- Lack of documentation available for tests of materials, such as cement and rebar used in the construction
- Settlement cracks
- Improperly installed floor and wall tiles
- Items such as generators not installed or on the premises
- Wrong fuses in the electrical system

- Lack of grounded outlets
- Substitution of materials such as wood windows in lieu of aluminum ones

Table 2. Construction Subcontracts

Subcontractor	Firm Fixed Price	Building Location(s) – Province
Jahan Ara Construction Company (JAC)	\$105,703	Balkh
Afghanistan Rehabilitation and Agriculture Organization (ARAO)	111,224	Herat
Architectural and Engineering Company (AEC)	153,200	Kundoz and Parwan
Khurasan Zameen Construction and Engineering Company (KZCC)	87,950	Panjshier
Total	\$458,077	

In December 2007 and January 2008, engineers from the mission's Office of Alternative Development and Agriculture reinspected the buildings, noting several items still needing corrections.

According to the mission's Office of Infrastructure, Engineering and Energy, to ensure consistent application of construction standards, it is a standard industry practice for the original engineers to perform the follow-up and final inspections. The Office of Infrastructure, Engineering and Energy did not participate in the December and January inspection because of a lack of available engineering staff. These inspections were considered interim inspections by the Office of Alternative Development and Agriculture to assess the progress being made by Chemonics in addressing the identified problems. However, the Office of Infrastructure, Engineering and Energy engineers should be looking at the requested test documentation to verify that it meets the original requirements, and should be involved in the final inspection of the buildings.



Photograph of a building constructed in Parawan Province, displaying the incomplete exterior and surfacing work. (Office of Inspector General, April 2008)

The construction defects resulted from a lack of a documented detailed review of initial design plans by a qualified engineer and the lack of daily engineering oversight at construction sites. Although the mission's contracting officer gave the Office of Infrastructure, Engineering and Energy the design plans, the mission could not demonstrate the extent of its review and approval. Chemonics provided design plans received from the Afghan Ministry of Urban Development. According to Chemonics, since the buildings were to be built on ministry land, it was to use a ministry-approved plan. However, the ministry's plans were from the 1970s and did not reflect current construction standards. For example, Chemonics' engineer commented that the electrical requirements were out of date by current standards.

In addition, Chemonics lacked sufficient on-site engineering support and oversight. Though the mission identified several problems with each building, the engineer commented that the buildings in Herat and Balkh provinces had fewer problems because Chemonics had an on-site engineer during the construction. At the remaining three buildings, Chemonics did not have on-site engineers, and the quality of the work was far worse. At these locations, on-site engineers would have been beneficial because the subcontractors used local construction workers. Local workers have varying skills, and an on-site engineer could have made sure that only skilled laborers performed the more critical tasks.

Further, by not properly monitoring the projects to ensure that the required material testing was completed, the ministry could be accepting buildings that suffer from structural problems because defects were not identified and corrected during the construction phase. As a result, this audit makes the following recommendations:

Recommendation No. 5: We recommend that USAID/Afghanistan prepare procedures requiring review of construction design plans and provide quality assurance oversight by the Office of Infrastructure, Engineering and Energy.

Recommendation No. 6: We recommend that USAID/Afghanistan require engineers from the Office of Infrastructure, Engineering and Energy work with Chemonics International, Inc. to take corrective action on each of the construction defects and to require these engineers to be part of the final inspection.

Items Funded by USAID Were Not Properly Marked

Summary: USAID's ADS 320 incorporated into Chemonics' contract, requires that programs, projects, activities, public communications, or commodities implemented or delivered under contracts and subcontracts exclusively funded by USAID be marked exclusively with the USAID identity. However, Chemonics did not mark items purchased or built with USAID funds in accordance with this policy. Chemonics did not adhere to USAID's policy because neither Chemonics nor the mission adequately ensured proper compliance. As a result, USAID is not effectively enhancing the visibility and value of U.S. foreign assistance to the Afghan community.

USAID's ADS 320 requires that programs, projects, activities, public communications, or commodities implemented or delivered under contracts and subcontracts exclusively funded by USAID be marked exclusively with the USAID identity. In addition, the mission's contract with Chemonics included provisions requiring Chemonics to adhere to USAID's branding and marking policy.

However, Chemonics did not mark items purchased or built with USAID funds in accordance with USAID's branding and marking policy and applicable contract terms. Specifically, Chemonics did not mark USAID-funded projects in the following areas:

- Farm equipment and structures such as tractors, laser levelers, and a fruit-drying building placed in a demonstration farm in Badam Bagh
- Renovated irrigation and livestock buildings and vendor stalls constructed for agricultural fairs in Badam Bagh
- Structures constructed in Mazar-e-Sharif, which included vendor booths and an entertainment stage

Chemonics did not adhere to USAID's branding and marking policy because neither Chemonics nor the mission adequately ensured proper compliance. For example, Chemonics submitted its marking plan, which the mission approved in February 2007. Then, in July 2007, Chemonics began requesting waivers to the policy in some remote areas, citing security concerns. The mission did not respond to Chemonics until September 2007, directing Chemonics to submit a revised marking plan that included all requested waivers. Chemonics did not respond to this directive until March 2008.



Photograph of vendor booths and an exhibition stage constructed for the Badam Bagh fair site. (Office of Inspector General, April 2008)

According to Chemonics, there was confusion within the organization as to what needed to be submitted, resulting in no action on its part and further confusion as to what required marking. The chief of party and communications director assumed that since requests for waivers were submitted individually, a more detailed plan was not required. After a change in key personnel, however, Chemonics realized that a detailed plan was needed. Chemonics' corporate office attempted to prepare the plan but did not complete it. Without a timely, updated plan, there was confusion within Chemonics as to what should be marked. For example, Chemonics employees mentioned that they thought nothing would be branded owing to the security situation within Afghanistan.

Since the cognizant technical officer assumed that Chemonics was adhering to the branding policy, no direct action was taken during site visits to test for compliance on items purchased, such as the farm equipment and structures.

The mission's Accelerating Sustainable Agriculture Program is crucial to the Department of State and USAID's efforts to build regional stability in Afghanistan. This \$102 million program is intended to be a key contributor to promoting regional integration with the potential to increase exports of agricultural products. USAID is not effectively enhancing the visibility and value of U.S. foreign assistance to the Afghan community if items are not properly branded or marked. Therefore, this audit makes the following recommendations:

Recommendation No. 7: We recommend that USAID/Afghanistan reevaluate Chemonics International, Inc.'s March 2008 revised marking and branding plan and make a determination whether to approve any exceptions to marking requirements included in the plan.

Recommendation No. 8: We recommend that USAID/Afghanistan develop procedures requiring cognizant technical officers to verify and document, as part of their site visits, that items purchased or built with USAID funds are properly marked.

Inadequate Documentation Maintained for Reported Results

According to its contract, Chemonics is to provide effective activity monitoring and reporting. Furthermore, Chemonics' approved life-of-project plan defines the roles and responsibilities of the monitoring and evaluation staff to include a system to ensure that the program's data are easily accessible.

However, Chemonics did not have an effective monitoring and evaluation system to ensure that it had adequate and accessible program data. Of the eight performance indicators against which Chemonics reported progress for calendar year 2007, two were not adequately documented and four had no support. Chemonics' support for the number of farmers trained in short-term agricultural enabling environment for fruits and vegetables, consisted of undated attendance sheets related to training sessions for which neither the topics nor the training provider were identified. Further, Chemonics did not keep training records for training sessions held in the field. Chemonics did not maintain any form of support for reported progress against four indicators: increased sale of licit farm products, number of rural households benefiting from U.S. Government interventions, number of producer organizations assisted, and the economic value generated under the program. Table A-1 in appendix III illustrates the level of supporting documentation available for each indicator.

According to Chemonics, it lacked adequate support because it did not have a dedicated monitoring and evaluation director in calendar year 2007. Therefore, Chemonics did not perform data validation on the year-end reported results. Chemonics also did not have a system to ensure that the program's data were easily accessible. Chemonics relied on individual program managers to collect and store supporting progress data and report progress against targets; however, there was no central system to collect, store, summarize, and report the program results. As a first step in addressing this problem, in February 2008 Chemonics designated a monitoring and evaluation director.

A vital part of performance management is monitoring and reviewing performance information in order to timely identify areas of underperformance and take corrective action. Chemonics' current system of data collection and reporting lacks necessary controls to readily determine if the support is sufficient and to determine if the reported results are accurate. As a result, there is no assurance that mission management is basing its program decisions, such as allocation of resources, on accurate information. Further, allowing individual managers to store the supporting documentation in different locations increases the risk of lost documentation. As a result, this audit makes the following recommendations:

Recommendation No. 9: We recommend that USAID/Afghanistan's cognizant technical officer issue a technical directive, requiring Chemonics International, Inc. to define the roles and responsibilities of the monitoring and evaluation staff, to include a system to ensure that the program's data is accurate and easily accessible.

Recommendation No. 10: We recommend that USAID/Afghanistan's cognizant technical officer require Chemonics International, Inc. to perform a data quality assessment before the issuance of the next annual report.

Restricted Commodities Purchased Without Prior Written Approval

According to its contract, Chemonics could not procure agricultural commodities, pesticides, or fertilizers without the prior written approval of the contracting officer. If Chemonics procured specific restricted goods under this contract without the contracting officer's prior written authorization and received payment for such purposes, the contracting officer may require Chemonics to refund the entire amount of the purchase. These contract clauses exist to ensure that Chemonics uses only quality products for intended and specific purposes. For example, approval is required for seeds and plants to ensure that Chemonics purchases only high-quality certified products. Fertilizer restrictions are in place to ensure that fertilizer is used for legal crops and not for illicit crops such as poppy. Finally, pesticide approval is required to ensure that it meets local regulations, is consistent with local practices, and does not adversely affect the environment.

Chemonics purchased \$37,573 in restricted commodities without the contracting officer's prior written authorization. Specifically, Chemonics purchased fertilizer, seeds, and plants for various projects during calendar year 2007.

The audit team could not determine why Chemonics did not seek the contracting officer's prior written authorization for these restricted purchases. Chemonics has experienced turnover in its contracting staff, and as a result, the current staff was not directly involved with the transactions in question. Also, because these costs were not separately identified in Chemonics' invoices, the mission had no way of readily identifying these restricted purchases during its invoice review.

If Chemonics does not request advance authorization to procure these items, there is an increased risk that products that do not meet quality or safety standards will be used in a USAID-funded project. Therefore, this audit makes the following recommendations:

Recommendation No. 11: We recommend that USAID/Afghanistan determine the allowability and collect as appropriate \$37,573 for commodities purchased by Chemonics International, Inc. without prior written approval from the mission.

Recommendation No. 12: We recommend that USAID/Afghanistan's cognizant technical officer issue a technical directive to require Chemonics International, Inc. to identify in its invoices costs associated with restricted commodities.

Program Income Not Credited to USAID

Federal Acquisition Regulation 31.201-5 states that the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the U.S. Government either as a cost reduction or by cash refund.

Chemonics generated program income during agricultural fairs by selling successful harvests from demonstration farms, and through sales of grape trellis posts by its

subcontractor, Roots for Peace. Chemonics and its subcontractor recognized \$129,731 in program income, as table 3 shows. As of March 31, 2008, Chemonics has not credited USAID or reduced its program costs by the amount of income recognized.

Table 3. Summary of Program Income

Income Source	Amount
Agricultural Fairs	\$41,242
Badam Bagh Harvest Sales	20,239
Roots for Peace Trellis Posts Sales	68,250
Total	\$129,731

Chemonics has not properly accounted for the program income primarily because the mission did not design the program for the contractor to generate income. As a result, the only contract provision for handling income is contained within the Federal Acquisition Regulation cost principles, with which the program did not comply. Further, the mission was not aware that Chemonics was recognizing program income until October 2007, when Chemonics requested permission to reprogram the income to procure additional trellis posts. However, it was not until March 2008 when the mission sought to review the magnitude of this issue further. As a result, this audit makes the following recommendation:

Recommendation No. 13: We recommend that USAID/Afghanistan direct Chemonics International, Inc. to reduce future billings to USAID by \$129,731 for program income collected as of March 31, 2008, and comply with the terms of the contract for any income received after March 31, 2008.

Approved Performance Management Plan Was Not Complete

Summary: USAID's ADS 203.3.3.1 states that the performance management plans must define and include baseline levels and targets for indicators used to measure progress. However, the program's approved performance management plan did not include all required elements, such as targets for performance indicators and clear definitions on how to measure progress for established indicators. The incomplete performance management plan results from a lack of clear guidance from the mission to the contractor on what to include in its performance management plan, as well as the mission's failure to review performance management plans before approving them. Without approved performance targets and clear definitions of how to measure progress, the mission lacks performance information, which is considered critical for influencing program decisions and making resource allocations.

USAID's ADS 203.3.3.1 states that performance management plans must define and include baseline levels and targets for indicators used to measure progress.

However, the program's approved performance management plan did not include all required elements, such as targets for performance indicators or clear definitions of how to measure progress for established indicators. The audit disclosed that only two of the

eight performance indicators used to measure program performance had established targets for calendar year 2007, five of the eight performance indicators did not have targets, and the remaining indicator had only a life-of-project target.

Originally, Chemonics was required to report on three performance indicators under its performance management plan: number of individuals who received short-term agricultural enabling environment training, number of rural households benefiting directly from U.S. Government interventions, and increased sales of licit farm and nonfarm products over previous years. The cognizant technical officer asked Chemonics to report on five additional performance indicators: the number of full-time equivalent jobs created, additional hectares under improved technologies or management practices, training on improved agricultural practices, producer organizations assisted, and economic value generated in agricultural products. The mission provided no targets for four of these indicators and a life-of-project target for one. The mission's performance indicators and established targets, where available, are summarized in table A-1 in appendix III.

Besides not establishing targets for key performance indicators, the approved performance management plan did not clearly define how Chemonics was to measure the results for each indicator. For example, in its calendar year 2007 annual report, Chemonics reported that 320 full-time equivalent jobs were created; however, this calculation included only agricultural jobs and not the infrastructure jobs created during the construction and preparation of the Badam Bagh demonstration farm and the permanent agricultural fair sites in two provinces. As a result, Chemonics underreported the number of jobs created under the program.

The incomplete performance management plan results from a lack of clear guidance from the mission to Chemonics on what to include in a performance management plan, as well as the mission's lack of internal reviews of performance management plans prior to approval.

According to Chemonics, it did not receive clear guidance while developing the performance management plan. For example, Chemonics was required to prepare performance indicator review sheets to document the indicator definitions and targets, yet was not provided clear definitions for the targets. In addition, the mission required Chemonics to report on five additional indicators without providing additional time to develop targets or indicator review sheets.

Another contributing factor was the mission's failure to review the performance management plans of its contractors and grantees for compliance with ADS policies. According to the mission's Program and Project Development Office, the mission has never conducted performance management plan compliance reviews and does not give contractors and grantees guidance on how to prepare performance management plans and specifically how to define indicators and establish targets. A compliance review by the mission's Program and Project Development Office could have detected the missing elements of Chemonics' performance management plan.

As of December 31, 2007, the mission had obligated and disbursed \$77 million and \$16 million, respectively, for this program—a significant allocation of resources. Without approved performance targets and clear definitions of how to measure progress, the mission lacks performance information considered critical for influencing program decisions

and making resource allocations. This performance information is a key for communicating results achieved or not achieved, and for advancing organizational learning. For example, in the case of the number of jobs created, the program experienced positive results in year one by establishing 320 jobs. However, the fact that the performance management plan did not have established targets raises questions about whether progress was actually made and whether resources expended were planned for these areas. Without targets that are established and approved at the onset of the project, the mission cannot identify where the program most needs to effect change. As a result, this audit makes the following recommendation:

Recommendation No. 14: We recommend that USAID/Afghanistan develop procedures requiring the Program and Project Development Office to review performance management plans of contractors and grantees for compliance with USAID's Automated Directives System 203 prior to approval by the cognizant technical officer.

Chemonics' Performance Reports Were Not in Accordance With Contract

Chemonics' contract requires it to submit quarterly reports that describe progress, including progress against agreed-upon indicators. Further, the contract requires that Chemonics submit the annual report on October 1 of each year of the contract.

However, Chemonics did not provide performance monitoring reports in accordance with the contract terms. For example, Chemonics did not report on a quarterly basis its progress on the number of rural households benefiting directly from U.S. Government interventions, the increased value of agriculture products in Afghanistan, the number of full-time equivalent jobs, the increased sales of licit farm and nonfarm products in U.S. Government-assisted areas over previous years, the number of additional hectares under improved technologies, and the number of individuals who have received both short-term agricultural enabling training and training on new agricultural practices. Also, Chemonics did not report the annual results on a fiscal year basis, but on a calendar year basis for 2007.

The lack of these contract-mandated reports results from a mission technical directive that confused the reporting process and imposed requirements inconsistent with the terms of the contract. For example, although the contract required quarterly reporting on agreed-upon indicators, this technical directive instructed Chemonics on the format of the quarterly report and did not include reporting on the agreed-upon indicators. Chemonics commented that there was confusion on its part as to exactly what to provide in the report, and it provided what it thought the mission wanted. Chemonics did not change the format of the quarterly reports to incorporate the agreed-upon indicators because the original cognizant technical officer never questioned the format. Moreover, this technical directive required Chemonics to synchronize the submission of the annual report with the timeframe of the annual work plan which was on a calendar year basis, even though the contract specified submission of the annual report on October 1 of each year. Although the contracting officer was aware of the change from October to December reporting period, in retrospect, she stated that an administrative modification should have been issued. Finally, this technical directive also required Chemonics to

submit biweekly reports that were not required in the original contract.

Changing the format of the quarterly report to exclude reporting on agreed-upon indicators left no mechanism to monitor these results and no means to identify areas of underperformance that might require correction. Therefore, this audit makes the following recommendation:

Recommendation No. 15: We recommend that USAID/Afghanistan determine the nature, format, and timing of the reports required to effectively monitor contract performance and align the contract reporting requirements to these expectations.

EVALUATION OF MANAGEMENT COMMENTS

Based on an evaluation of the mission's response to the draft report, the Office of Inspector General determined that final actions have been taken on 6 recommendations, management decisions have been reached on 8, and 1 recommendation remains outstanding. The status of each recommendation is shown below.

Final Action – Recommendation nos. 1, 4, 8, 9, 12, 13

Management Decision – Recommendation nos. 2, 3, 5, 6, 7, 10, 11, 14

No Management Decision – Recommendation no. 15

For those recommendations without final action, the mission intends to perform the following actions.

For recommendation nos. 2, 3, 5, and 14, the mission anticipates completing written procedures by October 30, 2008.

For recommendation no. 6, the mission concurs that a licensed professional engineer should be involved in the final inspection process for all construction projects. The cognizant technical officer and engineers from the mission are working with Chemonics to correct the identified construction defects. The mission anticipates taking final action on this recommendation by December 30, 2008.

For recommendation no. 7, the mission anticipates that the contracting officer will provide final approval of the Chemonics branding plan by July 31, 2008.

For recommendation no. 10, the mission anticipates completing its data quality assessment by October 30, 2008.

For recommendation no. 11, the mission anticipates that the contracting officer will issue a final determination of allowance for Chemonics' purchase of restricted commodities by October 30, 2008.

We consider that management decisions have been reached on recommendation nos. 2, 3, 5, 6, 7, 10, 11, 14 and determinations of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions. Regarding recommendation no. 15, no management decision has been reached yet as management did not address this recommendation in their response. However, the mission subsequently notified the OIG office that it plans on reaching a decision within 30 days, at which time it will submit its decision for evaluation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this performance audit in accordance with generally accepted Government auditing standards. The 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The objective of this audit was to determine whether USAID/Afghanistan's Accelerating Sustainable Agriculture Program (program) is achieving intended results, and what has been the impact.

In November 2006, USAID/Afghanistan awarded a \$62 million contract to Chemonics International, Inc. (Chemonics) to implement the program. In November 2007, supplemental funding increased the contract ceiling to \$102 million. As of December 31, 2007, USAID/Afghanistan had obligated \$77 million and disbursed \$16 million for the program activities.

The audit was performed in Afghanistan from April 2 to April 28, 2008, and covered the program's activities implemented by Chemonics from November 2006 to December 2007. In Kabul, we conducted fieldwork at USAID/Afghanistan, the U.S. Embassy and Chemonics. We also conducted fieldwork in Chemonics' regional office and the Swedish Provincial Reconstruction Team in Mazar-e-Sharif, Balkh province. Moreover, we conducted visits to selected program project sites in Balkh, Kabul, and Parwan provinces.

We reviewed and analyzed the activities supporting eight performance indicators that USAID/Afghanistan established to measure whether the program was achieving planned results. Chemonics was required to report on all eight indicators in its annual progress reports.

As part of the audit, we assessed the significant internal controls used by USAID/Afghanistan to monitor program activities. The assessment included controls related to whether the mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by Chemonics, and (4) compared Chemonics' reported progress to planned progress and the mission's own progress evaluations. We also reviewed the mission's Federal Managers' Financial Integrity Act report for fiscal year 2007, and United Nations reports, for any issues related to the audit objective. Finally, we reviewed relevant prior audit reports, including those issued by the U.S. Government Accountability Office.

Methodology

To answer the audit objective, we interviewed officials from USAID/Afghanistan, Chemonics, and the International Security Assistance Forces. We also reviewed and analyzed relevant documents at both the mission and Chemonics. This documentation

included performance management plans, the contract between USAID/Afghanistan and Chemonics, site visit and other monitoring reports, progress reports, and financial records.

Chemonics uses Excel spreadsheet templates to track progress on the eight established performance indicators. We compared the performance data reported by Chemonics to USAID/Afghanistan in its progress reports to the performance data in the spreadsheets. To test the validity of the computer-processed data used to answer the audit objective, including data reported by Chemonics in its quarterly and annual reports, we did the following:

- Reconciled detailed schedules in the annual report to the summary schedules.
- Verified a judgmental sample of performance data against Chemonics' supporting records, including source documents provided by subcontractors such as quarterly progress reports.
- Verified a judgmental sample of source documents to documents provided by the subcontractor.

However, tests disclosed that Chemonics did not have adequate documentation available to support the results for all eight indicators included in its calendar year 2007 annual report. Of the eight indicators against which Chemonics reported progress, two were not adequately supported and four had no support.

For each selected performance indicator, we established the following materiality threshold criteria to measure progress made in the program:

- The planned result would be achieved if the target number was met.
- The planned result would be partly achieved if progress was made toward meeting the target number.
- The planned result would not be achieved if no progress was made toward meeting the target number.

MANAGEMENT COMMENTS

MEMORANDUM

TO: RIG/Manila, Catherine Trujillo

FROM: USAID/Afghanistan Director, Michael J. Yates /s/

DATE: 22 July 2008

SUBJECT: Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program (ASAP) (Audit Report No. 5-306-08-00X-P)

REFERENCE: CTrujillo / MYates memo dated 20 June 2008

In response to the referenced memo, the Mission thanks you for providing the opportunity to review the subject draft audit report. We wish to thank the auditors for their professionalism, patience, and hard work while conducting the audit. The draft report contains useful recommendations for strengthening the Mission's ability to monitor and track progress towards achieving intended results and assessing the grantee's performance. In the sections below, we provide our comments, other relevant information, and management decisions on the recommendations in the audit report.

The Mission believes that appropriate management decisions have been reached on the following recommendations: 2, 3, 5, 6, 7, 10, 11, 14, and 15 and that final actions have been taken on recommendation numbers 1, 4, 8, 9, 12, and 13. RIG/Manila's concurrence to these management decisions and final actions is respectfully requested.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No. 1: We recommend that the USAID/Afghanistan cognizant technical officer prepare an implementation plan identifying the critical tasks needed to implement the Mazar foods initiative. This implementation plan should identify all tasks that are behind schedule and how the mission is going to address the delay. Further, the mission should develop a process for periodically updating the implementation plan.

The Mission agrees with the audit's recommendation that a current

implementation plan is an effective way to track and evaluate project progress. As with all ASAP program activities, the Mazar Foods initiative has had a corresponding implementation plan, the Mazar Project Implementation Memorandum (PIM), that was part of ASAP's annual work plan submission that included foundation and farm activities. The first acceptable draft PIM was submitted on 19 March 2008 and included a chart with a critical activity timetable for start-up operations. Prior to that, Chemonics submitted a Mazar Foundation workplan on 17 March 2008.

On 1 April 2008, a Chemonics-hired law firm working on the Mazar project submitted a checklist of actions required to establish the Mazar Development Foundation, the prerequisite for initiating farm operations. The checklist included target dates for identified actions. Then, on 16 April 2008 Chemonics submitted the status of the 1 April 2008 checklist in an informal memo to the CTO. As activities were completed, or more frequently revised, updated activity timelines were submitted in April, May, and June.

As with all ASAP activities, the CTO, in conjunction with Chemonics, updates project priorities and implementation schedules as necessary. In this process, the CTO provides programmatic direction and the implementing partner is contractually responsible for developing an implementation plan, identifying critical tasks and associated timelines, and providing bi-weekly and quarterly status reports of project progress and/or delays. The reports are, in fact, periodic updates of ASAP's implementation plan. If delays occur it is the implementing partner's contractual responsibility to submit an action plan to the CTO describing how delays will be addressed in order to fulfill project obligations.

Note: The Mazar Foods initiative is an innovative project for USAID. It has significantly evolved since its inception, by continually improving its responsiveness to Afghanistan's social and political landscape and to USAID programmatic priorities. These changes sometimes necessitated changing the implementation plan, and therefore critical tasks and critical task timelines. This has occurred repeatedly since the program's inception in 2007 including during the audit of April 2008.

USAID/W also became more involved in the project beginning in April 2008. In coordination with the Mission and the Overseas Private Investment Corporation (OPIC), a Mazar foods initiative partner, USAID/W has been reevaluating the project's structure to determine the most effective way for the initiative to meet USAID's goals. On recent instruction from USAID/W, the Mission sent a Stop Work Order to ASAP on 15 June 2008 (Attachment A) that covers some components of the Mazar Foods activity. The Stop Work order did not stop farm-related activities and general farm development.

On the same date as the Stop Work Order, Chemonics resubmitted the third draft of its Year Two Workplan for CTO approval that included recent changes in the

Mazar project direction and associated activity timelines (the first draft was submitted on 22 March 2008 and the second draft on 6 April 2008). The annual workplan submission is Chemonics' contractual responsibility and is, in essence, an annual implementation plan update. The CTO approved the third draft plan with the caveat that the Mazar project was still under review by USAID/W and additional changes were forthcoming.

The project is on track with the current workplan and meets parameters within the recent Stop Work Order. At this time, the CTO and ASAP are maintaining project direction and accomplishing current critical tasks related to general farm development. Examples of these critical tasks include: ground water investigations such as well drilling to test water production and recharge; complying with USAID environmental requirements; completing market studies; preparations for the design of the farm and equipment procurement; establishing farm operational support including security and power; and soil fertility testing.

The Mazar Foods project has an up-to-date implementation plan, with task-specific timelines, that is updated both periodically and as substantial changes occur. The outstanding delays are all associated with the management structure and capacity to receive an OPIC loan, and the Mission has a plan for addressing these in conjunction with USAID/W and OPIC guidance. When USAID/W and OPIC inform the Mission of their management structure recommendations (for the OPIC loan), the CTO will instruct Chemonics/ASAP to submit an updated implementation plan for the Mazar activity as is customary with any significant change in ASAP's program activities.

Accordingly, the Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 2: We recommend that USAID/Afghanistan require its environmental officer to provide annual training to cognizant technical officers and require mission personnel to comply with the environmental regulations outlined in Mission Order 04-14 and USAID's Automated Directives System 204.

The Mission agrees with the audit recommendation. The Mission conducted a training session on 22 CFR 216 (REG 16) as presented in ADS 204 in November 2007 and repeated the training in June 2008. Participants of this training included CTOs and Activity Managers. In consultation with the Office of Program and Project Development (OPPD), the Mission Environmental Officer (MEO) will develop a plan to ensure that USAID staff members, especially CTOs and Activity Managers, receive training on REG 16 at least once a year. Such training will be conducted by the MEO, the Asia Bureau Environmental Specialist, or qualified consultants specialized in this work. OPPD will work with the MEO and Deputy MEO to release a Mission Order informing staff of this plan. The Mission Order will also include a timeline, which will outline the requirement for

all technical officers to meet with the MEO or Deputy MEO in order to be briefed on compliance with MO 04-14 and ADS 204.

The target date for closure of this audit recommendation is 30 October 2008.

Recommendation No. 3: We recommend the USAID/Afghanistan revise its mission order to be consistent with USAID's policy Automated Directives System 204 defining cognizant technical officer responsibilities for monitoring compliance with environmental regulations.

The Mission agrees with the audit recommendation. Although the Mission Order on Environmental Compliance provides information about the procedures and responsibilities at different levels of management, USAID/Afghanistan will make sure to revise the Mission Order to more specifically define CTOs' responsibilities when it comes to monitoring and follow up of the environmental compliance issues in all USAID financed activities and projects.

The target date for closure of this audit recommendation is 30 October 2008.

Recommendation No. 4: We recommend that USAID/Afghanistan obtain a written legal decision from its general counsel on how to proceed for completed and in process projects where environmental regulations were not followed.

The Mission agrees with the audit recommendation. Based upon consultation with the USAID/Afghanistan Legal Advisor (RLA), the USAID Office of the General Counsel (GC), and the USAID Agency Environmental Coordinator, the Mission is requiring that, in accordance with 22 CFR 216.3(a)(7), the contractor shall conduct the environmental review of the ongoing or completed subprojects or aspects thereof which was required by the Initial Environmental Evaluation for the SOAG. The contractor shall also take any mitigating measures developed as a result of this review. The basis for this decision was in an email from USAID/GC to the RLA on 10 July 2008.

The Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 5: We recommend that USAID/Afghanistan prepare procedures requiring review of construction design plans and provide quality assurance oversight by the Office of Infrastructure, Engineering and Energy.

The Mission agrees with the audit recommendation. The Mission proposes to revise the Mission Order 201.01 to include the requirement that programs considering construction in their activities be required to meet with Office of Infrastructure Engineering and Energy (OIEE). The meeting with OIEE will be

required early in the planning process to make arrangements to purchase the quality assurance and construction oversight services vital to all successful construction projects.

The target date for closure of this audit recommendation is 30 October 2008.

Recommendation No. 6: We recommend that USAID/Afghanistan require engineers from the Office of Infrastructure, Engineering and Energy work with Chemonics International Inc. to take corrective action on each of the construction defects and to require these engineers to be part of the final inspection.

The Mission agrees with the audit recommendation. The Mission agrees that Chemonics International should be required to work with engineers from OIEE, and that Chemonics should be required to accept OIEE's recommendations for corrective action on each of the defects identified. The Mission agrees that a USAID engineer, who is a Licensed Professional Engineer, is a necessary participant in a final inspection on a construction project. The CTO and OIEE are actively working together to take corrective action on construction defects and to include OIEE engineers on final building inspections.

The target date for closure of this audit recommendation is 30 December 2008.

Recommendation No. 7: We recommend that USAID/Afghanistan reevaluate Chemonics International Inc.'s March 2008 revised marking and branding plan and make a determination whether to approve any exceptions to marking requirements included in the plan.

The Mission agrees with the audit recommendation. The CTO and OPPD reviewed ASAP's revised Branding Strategy and Marking Plan and approved all revisions including requests for exceptions. The CTO forwarded this revised plan to the Contracting Officer (CO) on 20 July 2008 for approval per ADS 320.3.2.5. The CO will review and provide final plan approval or disapproval to Chemonics.

The target date for closure of this audit recommendation is 31 July 2008.

Recommendation No. 8: We recommend that USAID/Afghanistan develop procedures requiring cognizant technical officers to verify and document, as part of their site visits, that items purchased or built with USAID funds are properly marked.

The Mission agrees with the audit recommendation. The recent 12 May 2008 Mission Order 302.02 (Attachment B) addresses CTO certification on contractor/recipient compliance with delivery requirements under their respective awards. Marking of the items purchased or built with USAID funds is part of the delivery requirement and by issuing the Mission Order the Mission fully complied

with the auditors' recommendation.

The Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 9: We recommend that USAID/Afghanistan's cognizant technical officer issue a technical directive, requiring Chemonics International Inc. to define the roles and responsibilities of the monitoring and evaluation staff, to include a system to ensure that the program's data is accurate and easily accessible.

The Mission agrees with the audit recommendation. Chemonics/ASAP has revised its Performance Management Plan (PMP) to include responding to the audit recommendation. This third PMP revision was sent to the CTO on 17 July 2008. This revised PMP is under review but includes all above recommended measures. The CTO does not believe an additional technical directive is necessary since the response to the recommendation is included in the 17 July 2008 ASAP PMP.

The Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 10: We recommend that the cognizant technical officer perform a data quality assessment before the issuance of the next annual report.

The Mission agrees with the audit recommendation. USAID/Afghanistan is planning to conduct a data quality assessment for all FY 2008 performance data that will be reported to Washington before 16 November 2008. OPPD will make sure that CTOs, in conjunction with their implementing partners, undertake this important task.

The CTO's planned data quality assessment will begin no later than 5 October 2008 and end by 30 October 2008.

Recommendation No. 11: We recommend that USAID/Afghanistan determine the allowability and collect as appropriate \$37,573 for commodities purchased by Chemonics International Inc. without prior written approval from the mission.

The Mission agrees with the audit recommendation. Disallowance of costs is the authority of the CO and should be enforced in accordance with FAR 52.242-1 Notice of Intent to Disallow Costs. Therefore, the Office of Acquisition and Assistance (OAA) will determine the allowability and will take appropriate action accordingly. The USAID/Afghanistan Office of Financial Management (OFM) is currently conducting a financial review that covers the questioned costs. OFM

will submit its recommendation to the CO by 15 August 2008. If the CO determines that some or the entire commodity purchases shall be disallowed, a Bill for Collection will be issued to Chemonics.

The target date for closure of this audit recommendation is 30 October 2008.

Recommendation No. 12: We recommend that USAID/Afghanistan's cognizant technical officer issue a technical directive to require Chemonics International Inc. to identify in its invoices costs associated with restricted commodities.

The Mission agrees with the audit recommendation that Chemonics' invoices detail restricted commodity costs. In a CTO meeting with ASAP on 11 July 2008, ASAP agreed to begin identifying restricted commodity purchases in their monthly invoices. The CTO and OFM will verify compliance with the requirement in Chemonics' July 2008 invoice that is expected to be received in August 2008. Since ASAP agreed to the monthly invoice changes as recommended, an additional and separate Technical Directive is not necessary.

The Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 13: We recommend that USAID/Afghanistan direct Chemonics International Inc. to reduce future billings to USAID by \$129,731 for program income collected as of March 31, 2008, and comply with the terms of the contract for any income received after March 31, 2008.

The Mission agrees with the audit recommendation. In a 31 May 2008 letter to the CTO and CO, Chemonics will credit all program income, including said amount, to the ASAP contract. Responsible parties (CO, CTO) will evaluate upcoming July and August invoices to ensure Chemonics' compliance. Based on 15 July 2008 OFM discussions with Chemonics, appropriate measures are being taken by Chemonics to account for program income separately. For instance, a separate bank account has already been established. Separate expense books will also be maintained for program income. At this time the Mission is satisfied with Chemonics' procedures, and deems Chemonics in compliance with its program income contractual obligations.

The Mission deems that the recommendation has been fully addressed and therefore requests RIG's concurrence on its closure.

Recommendation No. 14: We recommend that USAID/Afghanistan develop procedures requiring the Program and Project Development Office to review performance management plans of contractors and grantees for compliance with USAID's Automated Directives System 203 prior to approval by the cognizant technical officer.

The Mission agrees with the audit recommendation. Since May 2008, OPPD has started the process of reviewing contractors' and grantees' PMPs for compliance with ADS 203 prior to approval by the CTO. OPPD will ensure formal procedures for reviewing partners' PMPs are in place by 15 October 2008.

The target date for closure of this audit recommendation is 30 October 2008.

Recommendation No. 15: We recommend that USAID/Afghanistan direct Chemonics to conduct a review of its billing system and take necessary action to address the systemic errors found in its billing of costs.

The Mission agrees with the audit recommendation. In concurrence with the CTO and CO, on 18 May 2008 OFM requested ASAP to review its billing system, correct systemic errors, and revise and resubmit January and February 2008 invoices (Attachment C). ASAP resubmitted January and February invoices from 20-22 June 2008 along with invoices for March, April, May, and June. Additionally, following the CO's recommendation, the CTO requested OFM to conduct a financial review of ASAP's expenditures.

The CTO met with ASAP on 10 July 2008 to review select costs and check for errors on the five invoices from January to June 2008. The CTO believed that major errors identified in OFM's email of 18 May 2008 were corrected. The CTO approved January to June invoices on 10 July 2008 and forwarded the documents to OFM for reimbursement.

OFM's limited financial review of the ASAP program began on 15 July 2008. Upon OFM's financial review completion, and CTO and OFM receipt and approval of July and August invoices, Mission staff will ensure all known errors are corrected.

The target date for closure of this audit recommendation is 30 September 2008.

Attachments

Attachment A: 15 June 2008 Mission Stop Work Order to ASAP

Attachment B: 12 May 2008 Mission Order 302.02

Attachment C: 18 May 2008 OFM email to Chemonics on invoices

Table A-1. Program Achievements as of December 31, 2007

Accelerating Sustainable Agriculture Program			
Agreed Performance Indicators			
Program Performance Indicators	2007 Year 1 Targets²	2007 Year 1 Results³	Verified
Number of full-time equivalent (FTE) jobs created	No target	320	320
Increased sales of licit farm and nonfarm products in U.S. Government (USG)-assisted areas over previous years	No target	\$19,918,325	No support
Number of individuals who have received short-term agricultural enabling environment training	2,548	1,719	Inadequate support
Number of additional hectares under improved technologies or management practices as a result of USG assistance	No target	352	352
Number of rural households benefiting directly from USG interventions	1,690,000	1,472,512	No support
Number of producers' organizations, water users associations, trade and business associations, and community-based organizations assisted as a result of USG interventions (sex-disaggregated)	No target	21	No support
Economic value generated	Life-of-project target: \$1 billion	\$58,867,188	No support
Training on improved agricultural practices	No target	7,785	Inadequate support

² Targets, where available, come from Chemonics' approved performance management plan dated May 28, 2007.

³ From Chemonics' Annual Report for activities through December 31, 2007, dated February 4, 2008.

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