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## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF FUNDS EARMARKED BY CONGRESS TO PROVIDE ASSISTANCE FOR DISPLACED PERSONS IN AFGHANISTAN

AUDIT REPORT NO. 9-306-06-004-P  
DECEMBER 21, 2005

WASHINGTON, DC



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

December 21, 2005

**MEMORANDUM**

**TO:** USAID/Afghanistan Mission Director, Alonzo Fulgham

**FROM:** IG/A/PA Director, Steven H. Bernstein /s/

**SUBJECT:** Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (Report No. 9-306-06-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your comments in their entirety in Appendix II.

This report includes three recommendations to ensure that approximately \$14.4 million in unspent earmarked funds are used for their intended purpose. In your written comments and subsequent e-mail correspondence, you concurred with two of the three recommendations.

Regarding Recommendations No. 1 and 2, we determined that the planned actions which you described in your comments and subsequent e-mail correspondence—when implemented—will address our concerns. Furthermore, you concurred with the approximate balance of \$9.366 million in potential savings/better use of funds that will result from implementation of Recommendation No. 1. Accordingly, management decisions have been reached on both Recommendations No. 1 and 2. Please coordinate final action on these recommendations with USAID's Office of the Chief Financial Officer—Audit, Performance and Compliance Division.

In its response to the draft report, USAID/Afghanistan did not agree with Recommendation No. 3 and suggested revisions to Recommendation No. 3 because it modified its plan for the use of the \$5 million in that recommendation. As a result, we modified Recommendation No. 3 for the final report to address this change. However, to reach a management decision, USAID/Afghanistan needs to notify us of its agreement with both the recommendation and the dollar amount in the recommendation. Please provide written notice within 30 days of any additional actions planned or taken to implement this recommendation.

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

# CONTENTS

<b>Summary of Results .....</b>	<b>1</b>
<b>Background .....</b>	<b>2</b>
Audit Objective .....	2
Did USAID/Afghanistan use the fiscal year 2004 and fiscal year 2005 earmarked funds for the intended purpose of providing emergency shelter and basic necessities to displaced Afghans?	
<b>Audit Findings .....</b>	<b>3</b>
Fiscal Year 2004 Funds Need To Be Redirected .....	3
Transfer of Fiscal Year 2005 Funds Needs To Be Completed .....	7
<b>Evaluation of Management Comments .....</b>	<b>9</b>
<b>Appendix I – Scope and Methodology .....</b>	<b>10</b>
<b>Appendix II – Management Comments .....</b>	<b>12</b>

# SUMMARY OF RESULTS

In the fall of 2003 President Bush signed Public Law 108-106, which appropriated emergency supplemental funds for the defense and reconstruction of Iraq and Afghanistan in fiscal year (FY) 2004. Included in this appropriation was a Congressional directive<sup>1</sup> stating that not less than \$10 million be made available for emergency shelter materials and basic necessities for displaced Afghans in and around Kabul. Similarly, in May 2005, President Bush signed Public Law 109-13, which included a \$5 million earmark for assistance for displaced persons in Afghanistan together with a Congressional directive stipulating that none of these funds be used to support a satellite city housing project (see page 2).

On June 30, 2005, Congress requested that USAID and Department of State Inspectors General investigate the decision to establish a satellite city outside Kabul as the primary means of relieving the dire housing shortage for displaced Afghans. The Department of State's Office of Inspector General agreed to review how the decision to develop a satellite city was reached, while USAID's Office of Inspector General agreed to conduct an audit and report on how the FY 2004 and FY 2005 appropriated funds were used (see page 2).

As of September 30, 2005, only \$600,000 of the \$10 million appropriated for FY 2004 had been used to provide shelter materials and basic necessities for displaced persons in Kabul (see page 3). Additionally, as of September 30, 2005, although Congress had been notified that the funds would be transferred to the Department of State's Bureau of Population, Refugees, and Migration, none of the \$5 million appropriated for FY 2005 had been transferred or spent by the Mission<sup>2</sup> (see page 7).

This report includes three recommendations to ensure that the remaining balance of approximately \$14.4 million in unspent earmarked funds is used for its intended purpose (see pages 7 and 8). Management concurred with two of the three recommendations, as well as with the approximate balance of \$9.366 million in potential savings/better use of funds that will result from implementation of Recommendation No. 1. Management decisions have been reached on two of the three recommendations. See page 9 for our evaluation of management comments.

Management comments are included in their entirety in Appendix II.

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<sup>1</sup> A Congressional earmark places legal requirements on how appropriated funds are spent. Although a Congressional directive is not a legal restriction, it does stipulate Congress' intent as to how the funds should be spent. It should be noted that while the FY 2005 \$5 million appropriation was "earmarked", the FY 2004 \$10 million appropriation included a directive but not an earmark. For readability purposes, however, the term "earmark" will be used in this report for both earmarked and directed funds.

<sup>2</sup> As discussed on page 8, after the end of audit fieldwork, the Mission—in coordination with Department of State's Bureau of Population, Refugees, and Migration—modified its plans for the use of the \$5 million and now intends to direct \$1.5 million of these funds to USAID's Office of Foreign Disaster Assistance.

# BACKGROUND

On November 6, 2003, President Bush signed Public Law 108-106, which appropriated emergency supplemental funds for the defense and reconstruction of Iraq and Afghanistan for fiscal year (FY) 2004. Included in this appropriation was a Congressional directive stating that not less than \$10 million be made available through appropriate humanitarian organizations for additional food, clothing, heating and cooking fuel, emergency shelter materials, and other basic necessities for displaced Afghans in and around Kabul.

On May 11, 2005, President Bush signed Public Law 109-13, which appropriated emergency supplemental funds for defense, the war on terror, and tsunami relief for FY 2005. Included in this appropriation, was a \$5 million earmark for assistance for displaced persons in Afghanistan, as well as a Congressional directive stipulating that none of these funds be used to support a satellite city housing project.

Congress appropriated these emergency supplemental funds to assist in meeting the urgent humanitarian and housing needs of displaced Afghans living in temporary, inadequate housing. As of September 30, 2005, the United Nations High Commissioner for Refugees estimated that there were one million Afghans with unmet shelter and basic necessity needs for the upcoming winter of 2005-2006. Additionally, the United Nations estimated that there are over three million Afghan refugees in Pakistan and more in Iran, many of whom will be forced to return to Afghanistan over the next several years. It is estimated that approximately 80 percent of these returnees do not own land and will require shelter and other basic necessities.

Using other appropriated funds for disaster assistance, USAID's Office of Foreign Disaster Assistance (OFDA) funded grants totaling approximately \$5.3 million in FY 2003—providing emergency shelter assistance to over 170,000 displaced Afghans. In FY 2004, OFDA funded grants totaling approximately \$4.8 million—providing emergency shelter to over 100,000 displaced Afghans. However, in FY 2005, OFDA did not fund any emergency shelter activities in Afghanistan.

## AUDIT OBJECTIVE

The Office of Inspector General's Performance Audits Division conducted this audit as a result of a June 30, 2005 Congressional request to answer the following:

- Did USAID/Afghanistan use the fiscal year 2004 and fiscal year 2005 earmarked funds for the intended purpose of providing emergency shelter and basic necessities to displaced Afghans?

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

# AUDIT FINDINGS

As of September 30, 2005, only \$600,000 of the \$10 million appropriated for fiscal year (FY) 2004 had been spent to provide basic necessities for displaced persons in Kabul. None of the \$5 million appropriated for FY 2005 had been spent; USAID notified Congress in June 2005 that these funds would be transferred to the Department of State's Bureau of Population, Refugees, and Migration in Afghanistan (DOS/PRM).

## **Fiscal Year 2004 Funds Need To Be Redirected**

Summary: The FY 2004 emergency appropriation stipulated that not less than \$10 million be made available for shelter materials and basic necessities for displaced Afghans in and around Kabul. However, as of September 30, 2005, only \$600,000 of this \$10 million had been spent to provide these basic necessities. This was because USAID obligated the balance of \$9.4 million under a Limited Scope Grant Agreement with plans to use the funds for the development of the "Chil Dukhtaran/Satellite City" housing project.<sup>3</sup> As a result, the \$9.4 million was not used to provide emergency shelter and basic necessities for displaced Afghans.

On November 6, 2003, President Bush signed Public Law 108-106, which appropriated emergency supplemental funds for the defense and reconstruction of Iraq and Afghanistan in FY 2004. Included in this appropriation was a Congressional directive stating that not less than \$10 million be made available through appropriate humanitarian organizations for additional food, clothing, heating and cooking fuel, emergency shelter materials, and other basic necessities for displaced Afghans in and around Kabul.

Of these funds, \$600,000 was allocated to the Department of State, which, according to the Department of State, used the funds to provide emergency medical assistance and basic necessities to over 20,000 displaced persons in and around Kabul. For example, three mobile health centers were established, serving approximately 30 persons a day. These centers also provided at least ten health education classes each month. Additionally, over 1,700 families—approximately 10,500 individuals—received short-term "winterization" kits, which included non-food items such as plastic sheeting for windows, blankets, cooking gas or oil, and various hygienic items.

The balance of \$9.4 million was allocated to USAID/Afghanistan. Considering the extensive housing needs for the large number of displaced persons in and around Kabul—including approximately 3,300 families that did not have any claim to land and who were living in an unhealthy environment—U.S. Government officials, in coordination with an inter-agency group of Afghan government officials, decided to use the funds for a permanent housing development outside of Kabul that targeted a specific group of

<sup>3</sup> The "Chil Dukhtaran/Satellite City" housing project was intended to provide a long-term housing solution for displaced persons in Kabul. The Department of State's Office of Inspector General reviewed the decision to develop this satellite city, while USAID's Office of Inspector General audited how the emergency appropriations were spent.

Afghans. This targeted group of Afghans consisted of returnees who did not have claim to property anywhere in Afghanistan, who originally came from Kabul, and who had been unable to qualify for other housing assistance, such as transitional shelter initiatives, because they did not own property on which to build. With this in mind, in December 2004, USAID obligated the \$9.4 million under a Limited Scope Grant Agreement with the Government of Afghanistan. In June 2005, \$5 million of this amount was sub-obligated under a Participating Agency Program Agreement with the U.S. Army Corps of Engineers, and as of September 30, 2005, approximately only \$34,000 was spent. However, none of these funds provided shelter materials or other basic necessities to displaced persons.<sup>4</sup>

The following photographs are examples of a winterized temporary shelter with broken windows covered with plastic sheeting and a temporary settlement for displaced Afghans.



**Photograph taken October 13, 2005 by an OIG auditor of a “winterized” temporary settlement in an abandoned building in Kabul.**

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<sup>4</sup> Included in the \$34,000 were costs associated with the Chil Dukhtaran project, for example, survey, title, and town planning costs.



**Photograph taken October 10, 2005 by an OIG auditor of a temporary settlement in Kabul.**

The housing development—which was named Chil Dukhtaran and is also referred to as the Satellite City project—however, was beset with a series of challenges. The most significant challenges included:

- Escalating costs—a February 2005 project description estimated the cost of the project to be \$19.4 million, including an estimate of \$4 million for the water supply portion of the project.<sup>5</sup> However, during our audit, the contractors estimated that the water portion of the project would total \$4.9 million, increasing the cost for the entire project to \$20.3 million.
- Land titling issues—there was at least one large occupied house on the project site. The contractors cannot begin full surveying work or underground de-mining until the occupants of the house are removed. Furthermore, when construction begins at the project site, other title claims may arise.
- Water issues—there have been disputes with neighboring villages over water rights.
- Risks from unexploded ordinance—although the land has been cleared of surface mines, construction will require sub-surface de-mining.

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<sup>5</sup> Of this \$19.4 million, \$9.4 million was obligated from the FY 2004 emergency supplemental appropriation under audit. The balance of the funds for the Chil Dukhtaran project, including the funding for the water supply portion of the project, either was obligated or was to be obligated from other appropriated fund sources.





Photograph taken on October 11, 2005 by an OIG auditor of the water reservoir under construction.



Photograph taken October 11, 2005 by an OIG auditor of the compound—identified by the red arrow—located on the Chil Dukhtaran housing development site.

In addition, the estimated completion date of the project was June 2007, resulting in unmet shelter needs for displaced Afghans throughout the winters of 2005 and 2006. In light of these considerations, during the course of our audit, USAID/Afghanistan, with Embassy support, decided to cancel the Chil Dukhtaran/Satellite City project.

Nevertheless, as a result of the focus on and obligation of funds to the Chil Dukhtaran/Satellite City project, \$9.4 million of the \$10 million under the FY 2004 emergency appropriation was not used to provide immediate shelter and basic necessities to displaced persons in and around Kabul. Accordingly, we are making the following recommendations to ensure that the remaining balance of approximately \$9.366 million<sup>6</sup> from the FY 2004 emergency appropriation is used as Congress intended.

*Recommendation No. 1: We recommend that USAID/Afghanistan, for the \$9.4 million obligated under the Limited Scope Grant Agreement and to fund specifically identified assistance activities for displaced Afghans in and around Kabul: (a) reprogram the balance of approximately \$4.966 million that was sub-obligated under the Participating Agency Program Agreement and (b) sub-obligate the \$4.4 million not yet sub-obligated.*

*Recommendation No. 2: We recommend that USAID/Afghanistan, in coordination with the Department of State's Bureau of Population, Refugees, and Migration, develop a plan to use the balance of approximately \$9.366 million to meet the basic necessities of displaced Afghans in and around Kabul.*

## **Transfer of Fiscal Year 2005 Funds Needs To Be Completed**

Summary: The FY 2005 emergency appropriation included a \$5 million earmark for assistance for displaced persons in Afghanistan and stipulated that none of these funds be used to support a satellite city housing project. However, as of September 30, 2005, none of the \$5 million had been spent to assist displaced Afghans. This was due to USAID/Afghanistan allocating funds to other competing Mission priorities. As a result, \$5 million of the basic needs for displaced persons in Afghanistan were not met.

On May 11, 2005, President Bush signed Public Law 109-13, which appropriated emergency supplemental funds for defense, the war on terror, and tsunami relief for FY 2005. Included in this appropriation was a \$5 million earmark for assistance for displaced persons in Afghanistan, as well as a Congressional directive stipulating that none of these funds be used to support a satellite city housing project. Additionally, Congress requested to be consulted prior to the obligation of these funds.

As of September 30, 2005, none of the \$5 million appropriated for FY 2005 had been spent. Congress was, however, notified on June 16, 2005, through a Department of State report, on the proposed use of these funds. The report stated that DOS/PRM

<sup>6</sup> \$9.366 million equals \$9.4 million obligated, less \$34,000 spent under the Participating Agency Program Agreement for Chil Dukhtaran.

would fund low-cost, permanent shelter for displaced Afghans and that the assistance would focus on areas of high refugee and internally displaced person return. Additionally, the report stated that small-scale, local infrastructure in support of shelter construction—such as water and sanitation services—may also be included. The report stated that the funding would begin in time for the 2005 summer/fall building season.

However, as of September 30, 2005 none of the \$5 million had been transferred from USAID to DOS/PRM. USAID/Afghanistan had not transferred the funds because, as of September 30, 2005, it had not received 100 percent of its FY 2005 appropriation from the Office of Management and Budget (OMB). Furthermore, the Mission was waiting for Department of State to request the funds transfer.<sup>7</sup> Thus, USAID/Afghanistan allocated the funds received from OMB to other Mission priorities rather than to DOS/PRM. As a result, \$5 million of assistance for displaced persons in Afghanistan was not provided.

As discussed in the evaluation of management comments and stated in management's response to our draft report, after the end of audit fieldwork, the Mission modified its plan for the use of the \$5 million. As indicated in its response, the Mission now plans to transfer \$1.5 million to USAID's Office of Foreign Disaster Assistance for immediate humanitarian relief for winterization needs and will allocate the balance of \$3.5 million to DOS/PRM for low-cost permanent shelter.

Accordingly, we are making the following recommendation to ensure that Congress is notified of the Mission's modified plan to spend the \$5 million FY 2005 appropriation and to ensure that these funds are used as Congress intended.

*Recommendation No. 3: We recommend that USAID/Afghanistan inform Congress, as appropriate, of its plans to use the \$5 million earmarked in fiscal year 2005 for assistance to displaced Afghans and use these funds for this assistance, as Congress intended.*

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<sup>7</sup> On October 6, 2005, during the course of our audit, the Department of State sent USAID a draft memorandum of understanding for the 632(a) transfer of the \$5 million in FY 2005 emergency supplemental funds.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report and subsequent e-mail correspondence, USAID/Afghanistan concurred with Recommendation Nos. 1 and 2. The Mission did not agree with Recommendation No. 3 because, after the end of audit fieldwork, the Mission changed its plans for using the \$5 million fiscal year 2005 appropriated funds.

In agreeing with Recommendation No. 1, USAID/Afghanistan plans to reprogram, by March 31, 2006, the balance of approximately \$4.966 million sub-obligated under the Participating Agency Program Agreement. It also plans to reprogram, by March 31, 2006, the remaining \$4.4 million not yet sub-obligated. The Mission intends to use these funds—totaling approximately \$9.366 million—for activities for displaced Afghans in and around Kabul. Accordingly, a management decision has been reached for this recommendation.

In its response to Recommendation No. 2, USAID/Afghanistan agreed to develop, by March 31, 2006, a plan to use the balance of approximately \$9.4 million to meet the basic necessities of displaced Afghans in and around Kabul. Accordingly, a management decision has been reached for this recommendation.

USAID/Afghanistan did not agree with Recommendation No. 3, as it was worded in our draft report, because, after the end of audit fieldwork, the Mission changed its plans for using the \$5 million fiscal year 2005 appropriated funds. Initially, USAID/Afghanistan had planned to transfer the entire balance of \$5 million to DOS/PRM and had notified Congress of this intent. Nevertheless, after the end of our fieldwork and in response to Recommendation No. 3 in our draft report, the Mission informed us of changes in its plans for the use of these funds. Instead of transferring the entire \$5 million to DOS/PRM for low-cost permanent shelter, the Mission was planning to transfer only \$3.5 million to DOS/PRM, with the remaining \$1.5 being transferred to USAID's Office of Foreign Disaster Assistance. Based on this new information, we modified our recommendation. As a result, a management decision has not been reached on Recommendation No. 3. To reach a management decision, USAID/Afghanistan needs to notify us of its agreement with both the recommendation and the dollar amount in the recommendation.

Management comments are included in their entirety (without subsequent e-mail correspondence) in Appendix II.

# SCOPE AND METHODOLOGY

## Scope

The Office of Inspector General's Performance Audits Division conducted this audit in accordance with generally accepted government auditing standards. This audit was conducted as a result of a Congressional request. The audit was designed to answer the question: Did USAID/Afghanistan use the fiscal year 2004 and 2005 earmarked funds for the intended purpose of providing emergency shelter and basic necessities to displaced Afghans?

In planning and performing the audit, we assessed the effectiveness of internal controls related to the audit objective. We identified pertinent internal controls as the Mission's procedures related to the use of earmarked funds and inter-agency coordination for the timely transfer of emergency supplemental funds. We reviewed relevant criteria, including Public Laws 108-106 and 109-13 and the Government Accountability Office's Standards for Internal Control in the Federal Government.

There were no prior audit findings affecting the areas reviewed in this audit.

Our audit scope included:

- The \$10 million included in the FY 2004 emergency supplemental appropriation—which stipulated that not less than \$10 million be made available for basic necessities for displaced Afghans in and around Kabul.
- The \$5 million earmarked in FY 2005 for assistance for displaced persons in Afghanistan.
- The Chil Dukhtaran/Satellite City project.

This report summarizes the results of our audit work. Fieldwork was conducted at USAID/Afghanistan in Kabul and at various temporary settlements, winterization places, and the Chil Dukhtaran/Satellite City project site from October 3 through October 14, 2005. In addition, we gathered background and criteria information from USAID's offices and personnel in Washington.

## Methodology

To answer the audit objective, we conducted interviews with management officials at USAID/Washington and USAID/Afghanistan; Department of State's Bureau of Population, Refugees, and Migration; the Office of the United Nations High Commissioner for Refugees; the U.S. Army Corps of Engineers; the contractor responsible for the water supply portion of the Chil Dukhtaran project; and various Government of Afghanistan ministry officials.

We also reviewed pertinent documentation, such as USAID's Participating Agency Program Agreement with the U.S. Army Corps of Engineers, its Limited Scope Grant Agreement with the Government of Afghanistan, and various documents related to the Chil Dukhtaran project. In addition, we conducted site visits to several temporary

settlements and winterization places in Kabul, as well as to the Chil Dukhtaran project site.

We did not determine materiality thresholds for our audit objective, as they were not appropriate to this audit.



# USAID | AFGHANISTAN

FROM THE AMERICAN PEOPLE

## MEMORANDUM

TO: IG/A/PA Acting Director, Jacqueline Bell

FROM: Acting Mission Director, Barry Primm /s/

SUBJECT: Management Comments to IG's Draft Report on Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (Report No.9-306-06-00X-P)

We appreciate the opportunity to respond to the subject draft report. The Mission concurs with recommendations 1 & 2 and requests modification of 3 based on changed circumstances. The following are the actions taken by the Mission in response to the following recommendations:

**Recommendation No. 1:** We recommend that USAID/Afghanistan, for the \$9.4 million obligated under the Limited Scope Grant Agreement (LSGA) and to fund specifically identified assistance activities for displaced Afghans in and around Kabul: (a) reprogram the balance of approximately \$4.966 million that was sub-obligated under the Participating Agency Program Agreement and (b) sub-obligate the \$4.4 million not yet obligated.

**Action Taken:** The Mission is taking action to de-subobligate approximately \$4.97 million obligated under the Participating Agency Program Agreement (PAPA). A MAARD is in clearance to this effect and once approved, action will be taken to reprogram the funds.

We expect the de-obligation under the PAPA to be completed by December 31, 2005 and reprogramming of the funds by March 31, 2006.

**Recommendation No. 2:** We recommend that USAID/Afghanistan, in coordination with the Department of State's Bureau of Population, Refugees, and Migration (PRM), develop a plan to use the balance of approximately \$9.366 million to meet the basic necessities of displaced Afghans in and around Kabul.

**Action Taken:** The Mission has informed USAID/Washington and Government of Afghanistan of its intention to cancel the Chil Duktaran Satellite Housing Program. The Mission in coordination with PRM plans to use up the funds freed up by the closure of the Chil Duktaran project for shelter and supporting projects in five of the six provinces most impacted by displaced Afghans. This includes Paktya, Khost, Nangarhar, Logar and Kabul. These provinces are included in the Government of Afghanistan's land distribution plan which allows for provision of land to build shelter for the most needy. The Mission will have a plan to use funds by March 31, 2006.

**Recommendation No. 3:** We recommend that USAID/Afghanistan, in coordination with the Department of State's Bureau of Population, Refugees, and Migration, complete the 632(a)

transfer of the \$5 million appropriated for assistance to displaced Afghans.

**Mission Comments:-** The Mission does not agree with the language of the finding since there has been a change in the plan to utilize the funds since the departure of the auditors. Initially the Mission had plans to transfer the entire \$5 million to State PRM, However in coordination with PRM, a decision has been taken to transfer \$1.5 million to OFDA for immediate humanitarian relief for winterization needs. The balance of \$3.5 million will be transferred to PRM to address shelter needs.

We therefore suggest that the finding should be modified to

We recommend that USAID/Afghanistan, in coordination with the Department of State's Bureau of Population, Refugees, and Migration utilize \$5 million appropriated for assistance to displaced Afghans.

Closure of recommendations 1, 2 and 3 will be requested once the planned actions reported above are taken.



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