



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF SELECTED FOLLOW-ON ACTIVITIES UNDER USAID/AFGHANISTAN'S ECONOMIC PROGRAM

AUDIT REPORT NO. 5-306-07-009-P
August 31, 2007

MANILA, PHILIPPINES



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

August 31, 2007

MEMORANDUM

TO: USAID/Afghanistan Mission Director, Robin A. Phillips

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

SUBJECT: Audit of Selected Follow-on Activities under USAID/Afghanistan's Economic Program (Audit Report No. 5-306-07-009-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments in Appendix II.

This report contains two recommendations to assist USAID/Afghanistan in measuring the planned results of its economic governance and private sector strengthening program's activities. Based on the information provided by the Mission in response to the draft report, the Office of Inspector General considers that final action has been taken on Recommendation No. 1 and that a management decision has been reached on Recommendation No. 2. A determination of final action for Recommendation No. 2 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective action.

Thanks to you and your staff for the cooperation and courtesy extended to us during the audit.

CONTENTS

Summary of Results	1
Background	2
Audit Objective	3
Audit Findings	4
Were selected follow-on activities under USAID/Afghanistan's economic program achieving planned results and what has been the impact?	
Technical Assistance in Human Resources Development Was Not Provided	6
Agreed-upon Performance Indicators and Targets Were Absent	8
Work Plans Were Not Updated in Accordance With Contract Requirements	9
Evaluation of Management Comments	12
Appendix I – Scope and Methodology	13
Appendix II – Management Comments	15

SUMMARY OF RESULTS

The Regional Inspector General/Manila conducted this audit to determine if selected follow-on activities under USAID/Afghanistan's economic program were achieving planned results, and what has been the impact. (see page 3.)

Based on the review of technical services provided, the selected follow-on activities, agreed to between USAID and the Government of Afghanistan (GoA) under USAID/Afghanistan's economic program, were achieving results. However, USAID/Afghanistan had not established approved indicators or targets to measure its progress against. Therefore, the audit could not measure the activity accomplishments against planned interim goals or targets. (see page 4)

To implement its economic program, USAID/Afghanistan signed six agreements, referred to as project implementation letters, with six Afghan ministries and organizations to provide, through BearingPoint Inc. (BearingPoint), technical advisory services in support of the following objectives: (See page 4.)

- Restructuring of the Governmental Ministries and Organizations (see pages 4.)
- Legal and Regulatory Reform (see page 5.)
- Capacity Building (see page 6.)

Notwithstanding the results achieved 20 months into the contract, there are areas within the program that USAID/Afghanistan should focus on in order to improve the progress for the duration of the contract. First, the Mission needs to determine its plan in the area of human resources development. Next, the Mission needs to improve on defining performance indicators against which to measure progress. Finally, the Mission needs to work with BearingPoint in updating work plans to better reflect what should be accomplished for the remaining period of performance under the contract. (see page 6.)

This audit report makes two recommendations: (1) that USAID/Afghanistan reevaluate the work plan for one particular project implementation letter and decide whether to allow BearingPoint to continue with the planned activities to provide a human resources advisor to the Ministry of Finance for the duration of the contract or to revise the plan; and (2) that USAID/Afghanistan require BearingPoint to review, reassess, and update the work plans for the six project implementation letters issued under the program, and to include agreed-upon performance indicators and set targets that will be used to measure the program's intended results. (see pages 7 and 11). USAID/Afghanistan agreed with both recommendations. Based on our evaluation of USAID/Afghanistan's written comments and supporting documentation, we consider that final action was taken on Recommendation No.1 and a management decision was reached on Recommendation No. 2. (See page 12.)

USAID/Afghanistan's comments are included as Appendix II to this report. (See page 15.)

BACKGROUND

Afghanistan is an extremely fragile country rising from failed state status caused by decades of war, the fall of the Taliban in 2001, a weak economy, and the near-complete absence of social services. Thus, when the Government of Afghanistan (GoA) developed the Afghanistan National Development Strategy, which defines the strategic priorities and mechanisms for achieving the country's development vision, one of its goals was to create the conditions in which a dynamic and competitive private sector can flourish, contributing to economic growth, employment creation and poverty reduction.

In line with this goal, in December 2002 USAID awarded a 3-year, \$40 million contract to BearingPoint Inc. (BearingPoint) to implement the Sustainable Economic Policy and Institutional Reform Support Program. The program provided economic governance assistance by helping the GoA implement fiscal and banking reforms, trade policy, legal and regulatory policy, and privatization. The Office of the Regional Inspector General/Manila audited the program in 2004 and issued one recommendation that required BearingPoint to submit to USAID/Afghanistan for approval, quarterly work plan reports that included expected accomplishments and milestones.

In September 2005, USAID awarded another 3-year contract with a ceiling price of \$45.6 million to BearingPoint to implement the Economic Governance and Private Sector Strengthening Program (the program). The program's central goal is to assist the GoA in establishing an environment that will promote rapid economic development and sustained high rates of economic growth led by the private sector. Under the contract, USAID/Afghanistan signed six agreements, referred to as project implementation letters to provide technical assistance and support for capacity building, through BearingPoint to six Afghan ministries and organizations: (1) Da Afghanistan Bank; (2) Ministry of Commerce and Industry; (3) Ministry of Communications and Information Technology; (4) Ministry of Finance Customs, Human Resources, and Secretariat; (5) Ministry of Finance state-owned banks; and (6) Office of the President/Office of the Senior Economic Advisor to the President. As of May 2007, BearingPoint had a total of 137 advisors providing technical assistance to the aforementioned ministries and organizations under the Program. The 137 advisers were comprised of 24 U.S. citizens, 23 third country nationals¹, and 90 cooperating country nationals.²

USAID/Afghanistan's Economic Growth Office manages the Economic Governance and Private Sector Strengthening Program. As of May 2007, Mission records showed that the obligated and disbursed amounts for the program were \$33.3 million and \$18.8 million, respectively.

¹ Third country national means an individual who is neither a citizen nor a permanent legal resident alien of the United States nor of the country to which assigned for duty.

² Cooperating country national means an individual who is an Afghanistan citizen or an individual who is lawfully admitted for permanent residence in Afghanistan.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of the fiscal year 2007 audit plan to answer the following question:

- Were selected follow-on activities under USAID/Afghanistan's economic program achieving planned results and what has been the impact?

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

AUDIT FINDINGS

The selected follow-on activities, agreed to between USAID and the Government of Afghanistan (GoA) under USAID/Afghanistan's economic program, were achieving results. However, USAID/Afghanistan had not established approved indicators or targets to measure its progress against. Therefore, the audit could not measure the activity accomplishments against planned interim goals or targets.

To implement its economic governance program, USAID/Afghanistan signed six project implementation letters with the following Afghan ministries and organizations: (1) Da Afghanistan Bank; (2) Ministry of Commerce and Industry; (3) Ministry of Communications and Information Technology; (4) Ministry of Finance Customs, Human Resources, and Secretariat; (5) Ministry of Finance state-owned Banks; and (6) Office of the President /Office of the Senior Economic Advisor to the President (SEAP).

The Mission and the respective ministries and organizations agreed within each of the project implementation letters to dedicate technical advisory services provided by Bearing Point Inc. (BearingPoint) toward supporting the following objectives: (1) restructuring of the governmental ministries and organizations; (2) legal and regulatory reform; and (3) capacity building.

USAID/Afghanistan and the ministries agreed to work plans, contained within each project implementation letter. Within the work plans, the agreed to activities outlined what BearingPoint technical advisors would be assigned to support or work on. The intent was that the technical advisor services would contribute to aspects within one or more of the objectives discussed above. The following discussion highlights some of the program's accomplishments and impacts under each of the three objectives.

Restructuring of the Governmental Ministries and Organizations The activities under this objective were aimed at restructuring the governmental ministries and organizations. For example, BearingPoint provided technical advisory services within the Da Afghanistan Bank and two state-owned banks—Bank e Millie Afghan and Pashtany Tejeraty Bank—to bring them as close as possible to international standards through the introduction of appropriate operating control equipments and automation of the banks' operations, among other activities. In addition, BearingPoint's technical advisory services were focused on preparing the state-owned banks and the Afghan Telecom for privatization. At the midway point of the program, further progress toward privatization depends significantly on the Government of Afghanistan (GoA) to take necessary actions to act on the work and recommendations provided through the technical advisory services as further addressed below.

- Ministry of Finance - The BearingPoint advisers worked with two state-owned banks, Bank e Millie Afghan and Pashtany Tejeraty Bank. The advisers developed and submitted diagnostic reports that analyzed the deficiencies in these state-owned banks and made recommendations based on initiatives needed to revitalize the banks to protect and maximize the investments of the shareholders as well as to meet the demands of a new and active financial sector. It is now up to the GoA to address the recommendations and to decide when to privatize the two state-owned banks. As of

May 2007, the Mission has advised BearingPoint to remove the two advisers assigned to assist the banks since they have accomplished their main task of completing the diagnostic reports.

- Ministry of Communications and Information Technology - The BearingPoint advisers provided technical assistance that contributed to the establishment of the Afghanistan Telecommunication Regulatory Authority. This authority is the first independent sector regulator in Afghanistan with complete regulatory powers, including licensing, frequency management, interconnection, and monitoring and enforcement. Since its establishment, this authority has issued three mobile communication licenses to private telecommunication companies providing cellular telephone connection to the Afghan population.

In addition, to prepare for privatization of the government-owned telecommunications sector, the advisers assisted in valuing the net worth and in “corporatizing” Afghan Telecom, the government-owned telephone communication provider. It is now GoA’s responsibility to promote the sale of the Afghan Telecom to private investors.

- Da Afghanistan Bank - The Bearing Point advisers worked with Da Afghanistan Bank providing technical advisory services that led to
 - restructuring the bank by modernizing its human resources department;
 - improving its accounting functions to ensure that international standards are being followed;
 - developing adequate automated operations including, the communications and information technology infrastructure;
 - organizing and building the capacity of the Monetary Policy department; and
 - establishing a Risk Management section.

Despite these accomplishments the bank’s ability to successfully complete and sustain this restructuring is hampered by the lack of a qualified and skilled work force, a major problem that besets Afghanistan today.

Legal and Regulatory Reform The activities embarked under this objective were aimed at introducing new legislation and practices that create and sustain a market economy, reformed judicial processes, governance institutions, role and rights of the media, education and health system policies, and the financing of public services. The following are examples of some of the program’s activity achievements:

- Ministry of Commerce and Industry - The BearingPoint advisers provided technical assistance in the drafting of 10 commercial laws. Four of the laws; arbitration, mediation, partnership, and corporation were intended to establish a sound commercial legal framework to attract sufficient investment for sustained economic growth. These four laws have been approved and enforced.
- Ministry of Communications and Information Technology - The BearingPoint advisers provided technical assistance in facilitating the adoption of key normative acts including rules of procedure and ethics guidelines. The advisers also assisted in the development of the Telecom Law, which established the Afghanistan Telecommunication Regulatory

Authority, the independent sector regulator.

Capacity Building The activities under this objective were aimed at institutional strengthening, design and implementation of sound economic policy, financial sector strengthening, and private sector development. The achievements of these activities are evidenced by the following examples:

- Ministry of Finance - The BearingPoint advisers to the customs department have been assisting in automating the processing of incoming goods at the 14 border crossing points so that the country's customs' functions will comply with international standards. To date, 4 of the 14 border crossing points have been computerized.
- Office of the President/Office of the SEAP - The BearingPoint advisers were providing technical assistance in drafting the President's annual economic report, which provides information to the public and senior officials on key developments taking place in the economy and insights into the government's economic strategies.

Notwithstanding the results achieved 20 months into the contract, there are areas within the program that USAID/Afghanistan should focus on in order to improve the progress for the duration of the contract. First, the Mission needs to determine its plan in the area of human resources development. Next, the Mission needs to improve on defining performance indicators against which to measure progress. Finally, the Mission needs to work with BearingPoint in updating work plans to better reflect what should be accomplished for the remaining period of performance under the contract. These issues are further addressed below.

Technical Assistance in Human Resources Development Was Not Provided

Summary: Contrary to the USAID contract requirement to assist the Government of Afghanistan to meet human capital requirements in government, BearingPoint Inc. (BearingPoint) did not assign an adviser to assist the Ministry of Finance to promote a modern human resources management system. This happened in large part because the Government of Afghanistan did not have the necessary human resource counterpart representative to work with BearingPoint. As a result, this goal of assisting the Ministry to strengthen its human resource management had not started after the first 20 months of the contract's period of performance.

USAID's contract with BearingPoint tasks the contractor to assist the Government of Afghanistan (GoA) to establish sustainable recruitment and training programs for meeting human capital requirements in government. Training Afghans to gradually take over all the work that is performed by foreign advisers is a critical factor for sustainability.

USAID/Afghanistan and the Ministry of Finance signed Project Implementation Letter 6-EG which agreed on the technical advisory services for BearingPoint to support capacity building to the GoA aimed at institutional and financial sector strengthening, private sector development, and the design and implementation of sound economic policy.

From August 2006, when USAID/Afghanistan signed the agreement with the Afghanistan Ministry of Finance to provide technical assistance through BearingPoint and up until June 2007, the end of the audit fieldwork, BearingPoint had not assigned an adviser specializing in human resources development to assist the Ministry in promoting its own strategic objective of a modern human resources management system. This human resources management system was supposed to include, among other things, merit-based recruitment, performance-based human resource management, training, and a pay reform to attract, retain, and motivate talented staff all of which were considered critical elements required to develop staff capacity.

However, according to BearingPoint's chief of party the BearingPoint adviser assigned to the project had left for another job in September 2006. Since that time, BearingPoint had difficulty finding a human resources specialist until recently. The chief of party further explained that there was no Ministry counterpart for an adviser to work with; hence, the human resources component outlined in the work plan for the Ministry had not progressed as intended.

As a result, there has been no progress towards accomplishing the agreed activities within the work plan for BearingPoint to assist the Ministry of Finance in strengthening staff development and training capacity as well as human resource management capacity. Furthermore, the Ministry's strategic objective of having trained staff, which fits into the overarching promise of the Afghanistan Compact³, has been negatively impacted by the lack of technical assistance in the field of human resources. The GoA's obligation to its civil servants to offer the right to free professional training and the right to be promoted to higher levels of work based on skills, as included in the Afghanistan National Development Strategy,⁴ will be delayed. Therefore, we recommend the following:

Recommendation No.1: We recommend that USAID/Afghanistan reevaluate the work plan for Project Implementation Letter 6-EG and decide whether to allow BearingPoint Inc. to continue with the plan to assign a human resources advisor to the Ministry of Finance for the duration of the contract or to revise the plan

³ The Afghanistan Compact is a statement of mutual commitment between Afghanistan and its main development partners toward the achievement of a set of clear political, economic, and security-related benchmarks.

⁴ The Afghanistan National Development Strategy is the Government of Afghanistan's strategy promoting security, governance, economic growth and poverty reduction in Afghanistan.

Agreed-upon Performance Indicators and Targets Were Absent

Summary: USAID guidance requires operating units to jointly define with their implementing partners a set of performance indicators to lessen the reporting burden for partner organizations. USAID/Afghanistan and BearingPoint Inc. (BearingPoint) did not have agreed-upon indicators and targets against which to measure the program's performance against. This is due primarily to the fact that the different cognizant technical officers responsible for the technical oversight of this program have each had differing opinions on what the indicators should be. As a result, USAID/Afghanistan and BearingPoint have been working without agreement on what indicators should be used to measure performance against.

USAID's Automated Directives System (ADS) 203.3.2.1.d states that operating units should align their performance information needs with those of their partners to lessen the reporting burden for partner organizations. This includes jointly defining a critical set of performance indicators or incorporating data collection directly into assistance and acquisition mechanisms. Additionally, ADS 203.3.4.5 states that each indicator in the performance management plan should include set performance targets that can be achieved within an explicit timeframe.

USAID/Afghanistan did not have agreed-upon indicators with BearingPoint against which to measure or assess the program's performance. As a result, BearingPoint was able to report the program activities and accomplishments only in a narrative format, but was not able to report interim progress against defined indicators and targets. For example, BearingPoint would describe in its monthly progress reports the activities accomplished under each ministry for the month being covered. The monthly reports also included the next steps and planned activities to be taken for the subsequent month as well as challenges and mitigation strategies in regard to issues or problems identified. Similarly, the quarterly monitoring and evaluation status reports highlighted the activities accomplished under each ministry as well as a detailed log of activities, and success stories, among other things. However, without set indicators, BearingPoint could not report how these accomplishments compared to planned targets at a point in time.

The problem occurred because, from the start date of the contract, USAID/Afghanistan has assigned three different cognizant technical officers (CTO) who each have had differing ideas on the types of indicators to use for measuring performance. As a result, BearingPoint and the mission have yet to come to an agreement on specific indicators for measuring and reporting progress.

BearingPoint's program management adviser explained that BearingPoint had been reporting on the progress of activities in a narrative format in the interim while working with the CTOs to establish set targets and indicators. Since September 2005, and up until May 2007, BearingPoint's program manager has worked with the different CTOs and revised draft targets in response to the technical direction of each of the assigned CTOs. For example, the first CTO directed BearingPoint to establish lower level indicators to measure the Program's achievements. Before agreement could be reached on these indicators, the first CTO's assignment in Afghanistan ended and the

Mission assigned a second CTO to take over. The second assigned CTO directed them to use higher macro-level indicators, which were more difficult to measure because the change in these indicators could not be directly attributed to BearingPoint's activities. After the departure of the second CTO and prior to the arrival of the third CTO, the alternate CTO deferred a final decision on the reporting mechanism pending arrival of the new CTO. Hence, BearingPoint has not reported the Program's progress against indicators since the inception of the program because BearingPoint and the Mission had not yet reached an agreement on approved indicators.

The Mission's current CTO responsible for this contract confirmed that the program has had multiple CTOs since its inception and confirmed that the prior CTOs' management styles were all different, which explained the differing concepts on measuring the program's progress.

As a result, the Mission has had no mechanism in place against which to discreetly measure and report performance. For example, in response to the audit team's request to demonstrate the percentage of completion on results that the program has accomplished to date, the CTO submitted data taken from the Afghanistan Investment Support Agency⁵ and the International Monetary Fund revenue predictions. Using data compiled by organizations other than USAID may result in the Mission making programmatic or funding decisions based on data that cannot be attributed solely to USAID's efforts.

USAID guidance allows operating units to change, add, or drop performance indicators for compelling reasons. However, operating units should be aware that frequent changes to defined performance indicators may reduce the comparability of performance data over time and, consequently, may weaken performance management and reporting efforts. In this regard, we are not making a separate recommendation in this problem area as the recommendation in the subsequent problem area will also address the deficiencies noted here.

Work Plans Were Not Updated in Accordance With Contract Requirements

Summary: USAID's contract with BearingPoint Inc. (BearingPoint) requires BearingPoint to revise or update work plans 45 days prior to the end of the previous year. The six work plans used to implement the program's activities were not revised or updated from the time the contract was awarded in September 2005. This occurred because BearingPoint's plan to revise or update them was deferred in favor of other tasks originating from USAID that had to be accomplished. As a result, the level of effort was not redirected to areas where further progress was still feasible.

USAID's contract with BearingPoint, awarded on September 23, 2005, states that work plans for Year 2 and Year 3 of the program are due 45 days prior to the end of the previous year. Furthermore, it states:

⁵ Afghanistan Investment Support Agency is responsible for facilitating registration, licensing and promotion of all investments in Afghanistan.

Annual work plans shall include a stand-alone report that evaluates activities conducted during the previous year, comparing the progress actually achieved to the objectives set for the year in the previous annual work plan as well as in the initial implementation plan, and evaluating results in light of the program's emphasis on sustainability of results.

Since the start of the implementation of the program's activities, USAID/Afghanistan and BearingPoint have not updated the six work plans used to implement the activities. Therefore, at the time of the audit fieldwork, BearingPoint was still using the initial work plans from Year 1 to implement its activities. Likewise, the Mission was also using the same work plans to monitor the program's activities.

This occurred because BearingPoint considered the work plans as current since they were put in place in July 2006 and were to expire in March 2007. However, other tasks originating from USAID/Afghanistan delayed BearingPoint's plan to revise the work plans. In addition, according to the terms of the contract, the work plans require only a yearly update, so at that point they were still current. In February/March 2007, BearingPoint began to talk to USAID about revising the scope of work related to the contract modification/funding request on which BearingPoint was currently working. USAID requested them to move to a conventional project plan instead of keeping the logical frameworks in place. Furthermore, USAID requested them to add sections for several new project components to include the Ministry of the Economy, National Program Support Office, Information and Communication Technology, and Strategic Communications. The program management adviser noted that because of the nature of the logical frameworks, the work plans had remained relevant and would not have changed significantly if revised.

On the part of the Mission, the CTO explained that when he assumed his position in October 2006, his focus was to change the program's reporting format. This was a long process due to the arduous requirements involved. In the interim, he had to attend to several other events which further delayed his review of the work plans.

As a result, the level of effort was not redirected from activities with sufficient results to those where further progress was feasible. For example, BearingPoint's advisers completed and issued to the Ministry of Finance two diagnostic plans for the state-owned banks—Bank e Millie Afghan and Pashtany Tejeraty Bank—in March 2007 and May 2007, respectively. According to BearingPoint's chief of party, the work plan called for more than just the diagnostic plans; however, at this point, no further services were to be provided to the state-owned banks until the Government of Afghanistan supported the restructuring plans. Based on this information, BearingPoint should have made a decision back in March 2007 to put USAID funds to better use instead of keeping one adviser at Bank e Millie Afghan. It was not until May 2007 that BearingPoint pulled out the adviser who provided technical assistance at Bank e Millie Afghan.

In light of the fact that BearingPoint did not measure the program's accomplishments against agreed-upon performance indicators and set targets, there is more reason to review, reassess, and update the work plans taking into consideration the accomplishments of the activities under the program during the first 20 months of its implementation. Therefore, we are making the following recommendation:

Recommendation No. 2: We recommend that USAID/Afghanistan require BearingPoint Inc. to review, reassess, and update the work plans for the six project implementation letters issued under the Economic Governance and Private Sector Strengthening Program, and to include agreed-upon performance indicators and set targets that will be used to measure the program's intended results.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Afghanistan agreed with both recommendations.

In response to Recommendation No. 1, the decision made was to assign a Human Resource Advisor to the Ministry of Finance. As a result, BearingPoint assigned an individual to this position who started in June 2007. A work plan and performance indicators with targets were developed for this position. Based on a review of the Mission's comments and actions taken, we determined that final action has been reached on Recommendation No. 1.

In response to Recommendation No. 2, the Mission and BearingPoint are in the process of developing a combined work plan in place of having separate work plans under each project implementation letter. The combined work plan will be a stand alone report that evaluates activities conducted during the previous year towards achieving the objectives/deliverables set forth under each of the project implementation plans. The target for updating the work plans is no later than September 15, 2007.

With regards to the indicators, the Mission responded that it consulted with BearingPoint to incorporate indicators under the Monitoring and Evaluation plan and to address progress on the indicators on a quarterly basis. In addition, the Mission decided to make the indicators more specific, results-oriented, and properly tailored to the availability of reliable data.

Based on a review of the Mission's comments and described actions, we determined that a management decision has been reached on Recommendation No. 2. A determination of final action for Recommendation No. 2 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective action.

USAID/Afghanistan's written comments on the draft report are included in their entirety as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila (RIG/Manila) conducted this audit in accordance with generally accepted government auditing standards to determine whether selected follow-on activities under USAID/Afghanistan's economic program were achieving planned results, and what has been the impact.

The audit covered planned results achieved under the Economic Governance and Private Sector Strengthening Program (program) during the period from September 25, 2005, through May 16, 2007. As of May 2007, Mission records showed that the program's obligated and disbursed amounts were \$33.3 million and \$18.8 million, respectively. Audit fieldwork was conducted from May 15 through June 6, 2007 at the offices of USAID/Afghanistan, BearingPoint Inc. (BearingPoint), and the various Afghanistan ministries as well as the Office of the President in Kabul, Afghanistan.

In conducting this audit, the audit team reviewed and assessed the significant internal controls developed and implemented by the Mission to manage and monitor the program. The assessment included internal controls related to whether the Mission (1) conducted and documented periodic meetings with BearingPoint and the responsible Government of Afghanistan (GoA) officials; (2) reviewed progress and financial reports submitted by BearingPoint; (3) reviewed the work plans used in implementing the program's activities; and (4) reviewed the statements of work and exit reports submitted by BearingPoint for its advisers. We also reviewed the prior audit report that RIG/Manila issued relating to the Mission's economic program.⁶ Lastly, we reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2006 for any issues related to the audit objective.

Methodology

To answer the audit objective, the audit team reviewed the contract that USAID awarded to BearingPoint as well as the project implementation letters and work plans that USAID/Afghanistan issued to the GoA's various ministries including the Office of the President. From this review, and with the concurrence of the Mission, we identified the critical activities of the program. Furthermore, we reviewed progress and financial reports, statements of work, and exit reports submitted by BearingPoint. The team also interviewed responsible officials from the Mission, BearingPoint, and the Government of Afghanistan.

To review results and progress achieved as a result of the level of effort that BearingPoint had assigned to the program, the audit team interviewed ministry officials who served as the GoA's counterparts to USAID and BearingPoint. With each ministry, the audit team discussed the progress made against the activities outlined within the work plans. In addition, if the output of the activity resulted in a tangible product, for example a report, an assessment, a license etc, the audit team reviewed the supporting

⁶ Audit Report No. 5-306-04-005-P, Audit of the Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program at USAID/Afghanistan, issued on August 17, 2004.

documentation or evidence supporting the interim completion of the activity.

We did not develop materiality thresholds for answering the audit objective because the deliverables expected from the technical advisory services were of a more qualitative than quantitative nature.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Catherine M. Trujillo, RIG/Manila

FROM: Robin Phillips, Mission Director /s/

DATE: August 22, 2007

SUBJECT: Audit of Critical USAID/Afghanistan's Economic Program Follow-on Activities (Audit Report No. 5-306-07-00X-P)

REFERENCE: CTrujillo/RPhillips memo dated 07/27/07

Thank you for providing the Mission the opportunity to review the subject draft audit report. We are providing our comments, other relevant information, and management decisions on the recommendations in the audit report.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No. 1: We recommend that USAID/Afghanistan reevaluate the work plan for Project Implementation Letter 6-EG and decide whether to allow BearingPoint Inc. to continue with the plan to assign a human resources advisor to the Ministry of Finance with 16 months remaining in the contract's period of performance or to cancel the plan and put USAID funds to better use.

The Mission agrees with this recommendation.

Action Taken: BearingPoint, Inc. has contracted the services of a Human Resources Advisor to the Ministry of Finance, Mr. David Craig who, arrived in Kabul during the first week of June 2007 for a one-year assignment. Mr. Craig's scope of work, work plan, and performance indicators are attached as supporting documentation.

The Mission requests that this recommendation be closed upon issuance of the

final audit report.

Recommendation No. 2: We recommend that USAID/Afghanistan require BearingPoint Inc. to review, reassess, and update the work plans for the six Project Implementation Letters issued under the Economic Governance and Private Sector Strengthening Program, and to include agreed-upon performance indicators and set targets that will be used to measure the program's intended results.

The Mission agrees with this recommendation.

Planned Action: The Mission and BearingPoint, Inc. agreed to consolidate the work plans into one, instead of having separate work plans for each project implementation letter issued under the Economic Governance and Private Sector Strengthening Program. The consolidated work plan is intended to detail how the Mission will accomplish the results laid out in the PILs and will be tracked in the Monitoring and Evaluation (M&E) plan. The consolidated work plan will be a stand alone document that evaluates activities conducted during the previous years towards achieving the objectives/deliverables set forth under each PIL while concurrently setting the activities to be undertaken through the end of the project.

The work plan will be revised on a yearly basis to adjust and redirect the level of effort as needed to respond to the Government of Afghanistan's needs when feasible. The target date for the completion of this action is **September 15, 2007**.

USAID/Afghanistan in consultation with BearingPoint, Inc. reassessed the indicators listed in each PIL. It was agreed to remove the indicators listed in the PILs and to include these in the M&E plan. Progress towards these indicators will be monitored in the quarterly performance reports submitted by BearingPoint, Inc. The Mission also decided to decrease the large number of indicators that BearingPoint, Inc. is required to report thus making these indicators more specific, results-oriented, and properly tailored to the availability of reliable data.

The Mission deems that the planned action adequately addresses the recommendation, and therefore requests RIG/Manila's concurrence to this management decision.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig