



## Pakistan and Afghanistan



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# Pakistan and Afghanistan

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# Executive Summary

## Overview

This summary document provides information about Office of Inspector General (OIG) oversight activities in Pakistan and Afghanistan since fiscal year (FY) 2003.

OIG has strengthened its focus in Pakistan since the U.S. Agency for International Development (USAID) reopened its mission in 2002. OIG has been providing oversight of USAID activities in Afghanistan since 2002 as well. Our oversight activities cover a wide spectrum of USAID programs in these two countries, including such areas as relief and stabilization, reconstruction, sustainable development, education, and health care. Our activities help USAID make sure that tax dollars are being spent wisely and effectively.

USAID obligations in Afghanistan for FY 2002 through first quarter FY 2012 totaled more than \$13.2 billion. Since FY 2003, OIG has expended nearly \$15.5 million in base appropriations and supplemental funding to oversee USAID's activities in that country. From FY 2002 through first quarter FY 2012, USAID has provided more than \$5.4 billion to address priority programs in Pakistan. OIG has spent approximately \$7.4 million to provide in-country oversight in Pakistan through first quarter FY 2012. In both countries, we have adjusted our approach to ensure the maximum possible oversight of the increasing levels of assistance provided to local nongovernmental organizations and host governments in the form of project assistance and direct budget support.

## Results—Fiscal Years 2003 Through Fiscal Year 2012

Activities	Pakistan	Afghanistan
Performance audits/reviews	17	49
Recommendations made	68	248
Recommendations closed	52	189
Recommendations open	16	59
Financial audits conducted	47	45
Questioned costs	\$6.2 million	\$148.7 million
Sustained costs	\$3.1 million	\$3.9 million
Investigations opened	76	169
Investigations closed	52	108
Investigations pending	24	61
Referrals for prosecution	2	38
Indictments	0	13
Convictions	0	11
Arrests	0	13
Administrative actions	18	119
Recoveries and savings	\$101.6 million	\$163 million
Fraud awareness briefings	32	96
Attendees at briefings	780	1,879

## Highlights—FY 2012 First Quarter

### ***Audit of USAID/Pakistan’s Energy Efficiency and Capacity Program***

To help address power blackouts and other severe supply shortages, USAID/Pakistan awarded a 3-year, \$23.5 million contract in March 2009 to the International Resources Group to focus on training in the energy sector and on a variety of conservation activities throughout Pakistan. In April 2010, in response to a shift in U.S. Government strategy, the mission modified the program’s goal to focus on reducing energy demand through an activity to improve the efficiency of tube wells. This activity was designed to replace irrigation pumps used by farmers with more energy-efficient models.



**The pump that was provided by USAID’s tube well replacement activity operates on a farm in Punjab Province. Above, irrigation water flows from the pump shown at left. (Photo by the Office of Inspector General, July 19, 2011)**

In the first year of the program, OIG found that the mission had not achieved the majority of its targets. It had not helped any distribution companies implementing conservation strategies or any energy companies evaluating energy efficiency, upgrading equipment or with energy conservation plans.

It also had trained less than half the energy sector individuals intended.

After the shift in strategy, the mission planned to install 11,000 energy efficient irrigation pumps. Although a pilot phase determined that the activity was unlikely to succeed, the mission proceeded with the program.

By September of 2011, less than 1,000 pumps, or 9 percent, had been installed. This was as a result of multiple problems, including the mission setting unrealistic goals and budgets. For instance, the mission budgeted almost \$1,500 per pump, but in actuality paid almost \$9,000.

In addition, partners and beneficiaries often did not participate as intended. The regional energy distribution company, a key partner, did not fully support the program and farmers would not pay the additional cost of installing the pump, including masonry and electrical work.

The OIG report made three recommendations to address these issues. Management decisions have been reached on two recommendations and final action has been taken on one.

## **Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for the Southern Region**

In June 2009, the USAID Office of Transition Initiatives (USAID/OTI) signed a 3-year, \$159.6 million contract with Chemonics International, Inc. (Chemonics) to implement the Afghanistan Stabilization Initiative for the Southern Region (ASI-SR). ASI-SR has implemented project activities through grants in districts and municipalities in Kandahar and Helmand Provinces.

OIG was unable to reach a conclusion about whether the program as a whole was achieving its goal because of multiple issues with the program. Many of these problems stemmed from program implementation, which was delayed by a lack of formal work plans, inadequate USAID/OTI oversight, staffing difficulties, and poor quality subcontractors, among other issues. In addition, ASI-SR did not properly manage its budget and began running out of funds in the first quarter of fiscal year 2011.

Security costs were also questionable. Chemonics paid \$1.2 million for personal security details for staff members who lived on military bases and traveled exclusively in military convoys, even though no other contractor incurs this type of cost when their staff are resident on a military installation.

Furthermore, Chemonics officials stated that the company had leased 13 armored vehicles because it felt the vehicles were needed to provide sufficient security. However, Chemonics' security personnel prohibited expatriate staff from traveling into the field, and to maintain a low profile, local staff were using unarmored vehicles. They also leased

them at a significantly higher cost than other implementers, making their use questionable.

The long-term benefits of the initiative were also undercut by a lack of planning. Although some key districts were ready for longer-term development projects, no comprehensive plans were in place to guide this transition. Without a comprehensive transition plan to prepare for longer-term development, key districts may not be able to sustain gains in stability, as district governors may not have the resources to meet the needs of their communities.

Financial controls were also problematic. For example, Chemonics used cash to make large tax payments to the Afghan Government, increasing the risk that a payment may be stolen. For example, in May 2011, an employee sent to a bank in Lashkar Gah with \$62,398 to pay taxes to the Ministry of Finance disappeared with the money. Chemonics officials also contend that this presents a risk to companies, as funds have had a tendency to "get lost" in the banking system and it is difficult to prove deposits were ever made.

This report contains 18 recommendations to assist USAID/Afghanistan and management decisions have been reached on 12 of them.





# Office of Inspector General

## Overview

The mission of the Office of Inspector General (OIG) is to protect and enhance the integrity of the U.S. Government's approximately \$30 billion annual foreign assistance program administered in over 100 countries by the U.S. Agency for International Development (USAID), the United States African Development Foundation (USADF), the Inter-American Foundation (IAF), and the Millennium Challenge Corporation (MCC).

### Who We Are

OIG is an independent oversight organization within USAID that derives its primary authorities and independence from the Inspector General Act of 1978 (IG Act), Public Law 95-452, as amended.

OIG's staff of approximately 200 employees—both Foreign Service and Civil Service—includes auditors, certified public accountants, investigators, and program analysts, as well as specialists in management, budget, information technology, and personnel operations. Our fiscal year 2012 appropriation was \$51 million.

### What We Do

OIG is responsible for conducting and supervising audits and investigations involving the programs and operations of USAID, USADF, IAF, and MCC. Auditors, certified public accountants, and program analysts join forces to design and conduct audits and reviews to determine whether agency programs and operations are working as envisioned.

Audit activities include performance audits of programs, financial statement audits required under the Chief Financial Officers Act of 1990, Public Law 101-576, as amended, audits related to financial accountability of grantees and contractors, and audits of information

technology systems. OIG's criminal investigators are special agents who work diligently to ensure that those who would illegally divert U.S. Government funds are detected. Our special agents are sworn law enforcement officers who have authority to carry firearms, execute search warrants, and make arrests. Investigations of criminal, civil, and administrative violations cover all facets of these worldwide operations.

### OIG Priorities

Some of OIG's work is mandated by statute or regulation. Other work is performed at our discretion after considering the risks associated with the agencies' programs and assessing potential vulnerabilities in internal controls. OIG's top oversight priorities are:

- Pakistan
- Afghanistan
- HIV/AIDS, malaria, and tuberculosis
- Iraq
- Haiti

### Joint Work and Partners

Interagency coordination is an important element of the oversight process. OIG is a key participant in the Southwest Asia Joint Planning Group, led by the Department of Defense Office of Inspector General. Other members of the group include representatives from the Office of Inspector General for the Department of State, the Defense Contract Audit Agency, the Government Accountability Office (GAO), the Special Inspector General for Afghanistan Reconstruction, and the Special Inspector General for Iraq Reconstruction.

USAID/OIG also works closely with the Office of the Special Representative for Afghanistan and Pakistan (SRAP).

As a member of the National Procurement Fraud Task Force, OIG assists the Department of Justice in addressing procurement and grant fraud—especially in Iraq, Afghanistan, and Pakistan.

### **Where We Work**

Approximately 70 direct-hire OIG auditor, analyst, and special agent positions are based overseas, and the remaining workforce is stationed in Washington, DC.

OIG has overseas offices in Baghdad, Cairo, Dakar, Kabul, Islamabad, Manila, Port-au-Prince, Pretoria, San Salvador and Tel Aviv.

### **OIG General Information**

To learn more about USAID/OIG and its work, visit our Web site at [www.usaid.gov/oig](http://www.usaid.gov/oig) or contact us at 202-712-1150.

# Pakistan

## Introduction

**Background.** The primary goals of U.S. assistance to Pakistan are to tangibly improve the lives of the poor and to build support for the Government of Pakistan’s decision to join international efforts to thwart terrorism and reduce terrorist recruiting from within the country.

The U.S. Government reopened the USAID mission in Islamabad in 2002. From FY 2002 through the first quarter of FY 2012, USAID

provided more than \$5.4 billion (including emergency economic assistance) to address needs in education, health, economic growth, and good governance, as well as in earthquake reconstruction assistance. OIG has historically provided oversight of Pakistan from its regional office in Manila, but it now has 12 staff members located in Islamabad. OIG has spent approximately \$7.4 million to provide in-country oversight for Pakistan through the first quarter of FY 2012.

### Results—Fiscal Year 2003 Through Fiscal Year 2012

Activities	Pakistan
Performance audits/reviews	17
Recommendations made	68
Recommendations closed	52
Recommendations open	16
Financial audits conducted	47
Questioned costs	\$6.2 million
Sustained costs	\$3.1 million
Investigations opened	76
Investigations closed	52
Investigations pending	24
Referrals for prosecution	2
Indictments	0
Convictions	0
Arrests	0
Administrative actions	18
Recoveries and savings	\$101.6 million
Fraud awareness briefings	32
Attendees at briefings	780

**Performance Audits.** The chart beginning on page 11 depicts the findings of the 17 audits we have completed and the status of each of the 68 associated recommendations. Starting on page 27 are narrative summaries of the audits, arranged by fiscal year.

OIG's performance audit work in Pakistan has shown that security conditions have either hindered program accomplishment or had the potential to create implementation problems. Forty-seven percent raised concerns about security conditions. Our audits also identified trends in inadequate contract oversight or activities management (65 percent) and data integrity or quality issues (29 percent).

**Financial Audits.** By federal law (31 U.S.C. Chapter 75), nonfederal entities that expend \$500,000 or more in federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A-133. This OMB requirement applies to audits of States, local governments, and nonprofit organizations based in the United States. Audits conducted pursuant to Circular A-133 are sometimes referred to as "nonfederal audits."

USAID requires foreign nonprofit organizations that expend \$300,000 or more in federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in USAID's *Guidelines for Financial Audits Contracted by Foreign Recipients*. These audits are generally called recipient-contracted audits. Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews of them on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its implementing partners. Financial audits conducted under this program accomplish numerous goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States that have overseas affiliates. USAID contracts to have ACA audits conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews of them on a limited basis.

OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist the services of the Defense Contract Audit Agency (DCAA) to conduct incurred cost audits on for-profit entities that are not based in the United States. However, DCAA performs all financial audits on U.S.-based, for-profit entities.<sup>2</sup>

Financial audits performed on USAID's implementing partners in Pakistan are reflected in the chart on page 17. Questioned costs are those costs determined by an audit to not be allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). The USAID contracting or agreement officer

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<sup>2</sup> DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.

makes a final determination on the questioned costs and seeks reimbursement from the implementing partner for any costs sustained.

OIG has developed relationships with local institutions, such as the Auditor General of Pakistan, to help strengthen the accountability environment. OIG has entered into a memorandum of understanding with the Auditor General that will permit the Auditor General's audits to be accepted as meeting the requirement for annual audits of Pakistani Government entities implementing USAID-funded programs. OIG recently provided a financial audit training session, which included a segment on fraud awareness to the Auditor General's staff.

OIG also uses local accounting firms to conduct financial audits in Pakistan. Before using any local accounting firms for this type of work, OIG first conducts an assessment of their capabilities to perform the work.

**Investigations.** OIG's investigative goals are to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of federal laws, rules, and regulations.

In a number of criminal and civil case matters, OIG has worked closely with local authorities. We work with the Government of Pakistan's National Accountability Bureau, for example, to pursue allegations of wrongdoing by local nationals.

When our investigators uncover evidence of probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its interest in pursuing the matter.

Investigative findings on administrative matters are referred to Agency management for action. OIG investigators also conduct fraud awareness briefings to alert participants (employees, contractors, and grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. The chart on page 61 summarizes OIG's investigative work involving Pakistan.

OIG and USAID/Pakistan collaborated to establish an antifraud hotline in Pakistan. The antifraud hotline became fully operational in early February, but was formally launched during a fraud-awareness conference held in Islamabad on February 17, 2011.

This 5-year project is funded by a cooperative agreement between USAID/Pakistan and Transparency International—Pakistan in partnership with the Office of the Inspector General, although OIG is solely responsible for handling complaints received through the hotline. During the first quarter, the hotline received 489 complaints related to projects funded by USAID and other organizations through various channels.



## Pakistan Performance Audit Findings and Recommendations

	No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
FY 2003	1	<b>Audit of USAID's Bureau for Asia and the Near East Monitoring of the Government of Pakistan's Compliance with the Provisions of USAID Grant No. 391-K-005 (0-000-03-001-F)</b>	7-Jan-03	The audit found that USAID did not effectively monitor the Government of Pakistan's compliance with certain provisions of the grant agreement, which was to be used as reimbursement of debt paid and service of debt, to the United States, World Bank, Asian Development Bank, or International Monetary Fund. USAID officials had no assurance that the grant funds were used in accordance with the terms of the grant agreement until after the Government of Pakistan had expended the funds.	3	3	None.	
FY 2004	2	<b>Risk Assessment of Major Activities Managed by USAID/Pakistan (5-391-04-001-S)</b>	30-Oct-03	OIG conducted a risk assessment of education and governance programs, which identified several areas where vulnerability for risk was high: Two education programs were designated as high risk because of the lack of prior experience with USAID grants and because of having numerous U.S. and Pakistani partners to implement the programs. One local governance program was deemed high risk because there were problems with the participating nongovernmental organizations and with the legislative orientation component of the program.	0	0	None.	
FY 2007	3	<b>Audit of Selected Activities Under USAID/Pakistan's Basic Health Program (5-391-07-005-P)</b>	23-May-07	Overall, the selected activities under USAID/Pakistan's Basic Health Program generally did not achieve its intended program results. Areas where it fell short were in the distribution of family planning products, the promotion of program activities, the percentage of health facilities upgraded, the number of health care providers trained, and the number of grants awarded.	4	4	None.	
FY 2008	4	<b>Audit of USAID/Pakistan's Education Sector Reform Assistance Program (5-391-08-004-P)</b>	28-Mar-08	The audit found that USAID/Pakistan did not monitor the Education Sector Reform Assistance Program effectively, nor did it approve revisions to the program's scope and budget. OIG also found a lack of documentation of a potential conflict of interest.	1	1	None.	
FY 2009	5	<b>Audit of Critical USAID/Pakistan's Earthquake Reconstruction Activities (5-391-09-001-P)</b>	25-Nov-08	The audit found that construction and livelihood activities were experiencing delays, contractor performance reviews were not conducted, performance management plans were not approved, and a data quality assessment was needed.	4	4	None.	
FY 2010	6	<b>Audit of USAID/Pakistan's Capacity Building Program for the Federally Administered Tribal Areas Development Program (5-391-10-005-P)</b>	28-Jan-10	OIG's audit found that, although the program had provided training, taken initial steps to automate institutions in the Federally Administered Tribal Areas (FATA), and completed some media activities, little had yet been achieved to build the capacity of FATA governmental institutions and nongovernmental organizations (NGOs) responsible for providing services. The program had been in place for nearly 2 years of its 3-year planned lifespan, and it had not made significant progress with two of the program's main goals: improving institutions' capacity to govern and improving the capacity of NGOs to promote good governance.	4	4	None.	



	No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
	7	<b>Review of USAID's Internally Displaced Persons Programs in Pakistan (5-391-10-001-S)</b>	28-Jun-10	USAID implemented third-party monitoring in only one of its six internally displaced persons (IDP) programs. Consequently, without an instrument to easily employ third-party monitoring in high-threat environments in Pakistan, USAID did not verify program performance or consistently validate results first hand for its IDP program activities. The grant agreement for the \$44 million cash transfer for IDP families identified four controls to be implemented by the mission and the GOP. However, 6 months after the cash transfer was made to the Government of Pakistan (GOP), neither the mission nor the GOP had implemented any of the controls that were meant to provide reasonable assurance that the funds had actually reached IDPs. Thus, USAID has little assurance that cash transfers actually reached displaced families.	4	4	None.	
	8	<b>Audit of USAID/Pakistan's Primary Healthcare Revitalization, Integration and Decentralization in Earthquake-Affected Areas Project (5-391-10-010-P)</b>	28-Jun-10	In response to the intent of the project's cooperative agreement to establish appropriate patient referral mechanism, the implementer's work plan for 2008 identified five activities to be completed in fiscal year 2008 that were meant to strengthen the referral system. As of September 2009, 1 year later than planned, the implementer had completed four of five activities. The activities were delayed in part because GOP staff scheduled to work with the implementer were not available when needed. As a result, at the time of the audit, the new approach for the referral system was working in only 7 of 126 health facilities in the Mansehra and Bagh Districts, representing only a minimal improvement in access to health care.	1	1	None.	
	9	<b>Audit of USAID/Pakistan's Family Advancement for Life and Health Program (5-391-10-012-P)</b>	31-Aug-10	OIG's audit found that the Family Advancement for Life and Health Program was achieving its main goals. Among its accomplishments were (1) an increased demand for family planning services, (2) improved family planning services in the public sector, and (3) improved family planning services in the private sector. Overall, the audit found that participants were very satisfied with the program.	1	1	None.	
FY 2011	10	<b>Audit of USAID/Pakistan's Livelihood Development Program for the Lower Region of the Federally Administered Tribal Areas (G-391-11-001-P)</b>	10-Dec-10	The audit found that USAID/Pakistan had made little progress in reaching annual targets. Although the hostile situation contributed to the program's limited results, the mission did not ensure adequate monitoring and oversight to achieve program goals.	7	6	(5) USAID/Pakistan make a management decision regarding the allowability of and recover, as appropriate, questioned costs of \$767,841 (\$432,482 ineligible and \$335,359 unsupported) identified in the financial review and recover those costs determined to be unallowable.	The mission examined the allowability of the questioned costs and sustained \$352,470. The mission planned to recover these funds in April 2012. Until then, this recommendation remains open.

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
11	<b>Audit of USAID/Pakistan's Livelihood Development Program for the Upper Region of the Federally Administered Tribal Areas (G-391-11-002-P)</b>	10-Dec-10	<p>We found that USAID/Pakistan staff overrode management controls by conducting work reserved for the agreement officer, such as administering and making determinations regarding a cooperative agreement, and taking action without authorized approval. For example, in August 2008, shortly after starting work in upper FATA, USAID/Pakistan directed the implementer to provide disaster response and emergency relief services that were not part of the Livelihood Development Program (LDP) scope of work or budget. The services included response to the flood victims in Khyber Agency and response to internally displaced persons coming into the Peshawar region as a result of conflict. At that time, no other U.S. Government response was available in the area, and the mission determined that LDP resources should be used for this work. However, the mission made no revisions to the program to reflect this change in program focus. The work, which spun off into infrastructure activities that extended into the second year of implementation, diverted resources from program activities, changed the scope of work, and affected LDP's budget. The implementer attributed \$7.9 million to the disaster and relief work from August 2008 to March 2010.</p>	5	5	None.	
12	<b>Audit of USAID/Pakistan's Flood Relief Efforts as Administered by Local Nongovernmental Organizations (G-391-11-003-P)</b>	24-Jan-11	<p>The audit focused on two Pakistani NGOs: Pakistan Poverty Alleviation Fund (PPAF), which received \$2.7 million, and Rural Support Programmes Network (RSPN), which received \$2.3 million. The two agreements were to provide relief in the provinces of Balochistan, Punjab, Sindh, and Khyber Pakhtunkhwa—immediate relief to 80,100 households in the form of food hampers and supplies to an affected population of 190,058 people. The audit determined that the program goals were met.</p>	0	0	None.	

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
13	<b>Audit of USAID/Pakistan's Management of Pre-Award Assessments (G-391-11-004-P)</b>	6-May-11	With the implementation of the strategy to build Pakistani capacity, concerns have been raised in the media and within the U.S. Government that providing too much money to Pakistani recipients too quickly could jeopardize U.S. funds. USAID/Pakistan recognized the challenges and took proactive steps to address the risks. One key step taken by the mission was to contract with international and local accounting firms to conduct pre-award assessments (also referred to as pre-award surveys) of potential first-time recipients of USAID funds. The intent of these assessments is to determine whether the recipients can effectively manage and account for these funds. The accounting firms identify vulnerabilities and recommend actions to address the vulnerabilities. For fiscal year 2010, USAID/Pakistan expended approximately \$657,000 on the 28 pre-award assessments conducted and the resultant reports.	4	4	None.	
14	<b>Audit of USAID/Pakistan's Road Rehabilitation and Reconstruction Activities Under the Quick Impact Projects in South Waziristan (G-391-11-005-P)</b>	20-Jun-11	OIG conducted this audit to determine whether USAID/Pakistan's road rehabilitation and reconstruction activities under the Quick Impact Projects in South Waziristan were rebuilding selected roads. Despite some difficulties noted with mission operations, we determined that the road rebuilding efforts were on track. Two sections of road totaling 215 kilometers were completed that met all specifications and approvals required for reimbursement by USAID. Although security issues caused some delays, work progressed on schedule. The FATA Secretariat hired Frontier Works Organization (Frontier Works) of Pakistan to carry out road activities. For additional support, Frontier Works subcontracted with the Pakistani engineering firm National Engineering Services Pakistan Limited (NESPAK). Both Frontier Works and NESPAK have extensive experience in building roads and other infrastructure projects, and both will work on all the Quick Impact Projects in South Waziristan, including the water infrastructure and power systems. We found that these two entities contributed to the initial success of the road activities.	9	6	<p>(5) USAID/Pakistan provide implementers with copies of USAID's policies on ethics and conflicts of interest, and with written explanations and examples of potential conflicts.</p> <p>(8) USAID/Pakistan develop and implement a plan to monitor and document the status of branding and marking plans of contractors working on the Quick Impact Projects in South Waziristan, and provide training as necessary for compliance with Automated Directives System 320.</p> <p>(9) USAID/Pakistan provide additional details to the Federally Administrated Tribal Areas Secretariat concerning publicizing and marking USAID's contribution to the Quick Impact Projects in South Waziristan as specified in the implementation letter dated December 31, 2009.</p>	<p>A management decision was reached upon report issuance. The mission agreed with the recommendation. The mission plans to circulate USAID guidance on ethics and conflicts of interest related to USAID award recipients to its implementers. This recommendation remains open.</p> <p>A management decision was reached upon report issuance. The mission agreed with the recommendation and indicated that it would put a new monitoring &amp; evaluation contract in place. This contract will monitor compliance of implementers with the full terms of their agreement with USAID. This is to include compliance with USAID branding and marking requirements as identified in their agreement and agency guidance. This recommendation remains open.</p> <p>A management decision was reached upon report issuance. The mission agreed with the recommendation. USAID/Pakistan will engage a media support contractor to ensure wider dissemination of information about the range and impact of our assistance programs. USAID/Pakistan will assist the FATA Secretariat in publicizing and marking USAID's contribution to programs in FATA. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
15	<b>Audit of USAID/Pakistan's Community Rehabilitation Infrastructure (G-391-11-006-P)</b>	29-Aug-11	USAID/Pakistan exercised a substantial degree of control over the program that would have been more appropriate for a contract rather than a cooperative agreement. For example, work plans had to be prepared by the implementer and approved by the mission quarterly. Also, all proposed activities had to be approved by the mission before implementation. Although the program was awarded under a cooperative agreement, both USAID/Pakistan officials and the implementing partner agreed that the program has been implemented more like a contract. Mission officials commented that the nature of the work assigned to the program has changed drastically since the program's inception. According to mission officials, the variety, large value, and complexity of current construction activities require the mission to give daily technical directions to the implementer to ensure the quality and timeliness of facilities constructed through the program. USAID/Pakistan officials agreed that continuing to use the cooperative agreement to implement this program will lead to further delays and inefficiencies, particularly on large infrastructure activities that are ongoing or in the program's work plan. Mission officials do not believe that the award recipient has demonstrated the technical capacity to provide the required monitoring and oversight on the activities listed in the table.	10	3	(3) USAID/Pakistan develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health.	The mission will develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health. This recommendation remains open.
						(4) USAID/Pakistan revise the activity approval process to include a sustainability analysis for all infrastructure activities implemented under this program, regardless of the funding level.	The mission will revise the CRISP activity approval process to include a sustainability analysis/plan for all infrastructure activities implemented under this program, regardless of the funding level. This recommendation remains open.
						(6) USAID/Pakistan develop and implement a plan to increase awareness among mission and implementing partner staff of USAID's policy prohibiting the funding of religious activities.	USAID/Pakistan, in coordination with the USAID/Washington Office of General Council, will develop and conduct training sessions for contracting and agreement officers' technical representatives regarding legal prohibitions including funding of religious activities. The mission will also instruct implementing partners to contact USAID for guidance if they suspect that a potential problem with funding religious institutions may arise. This recommendation remains open.
						(7) USAID/Pakistan determine whether to amend or follow the program's internal control procedure requiring the mission director's approval for all activities that exceed \$500,000.	The mission agreed with the recommendation. Because funding is approved in the Activity Approval Document, the mission has decided to delete the procedure requiring the mission director's approval for all activities exceeding \$500,000 and will formalize this change in an action memo. This recommendation remains open.
						(8) The mission obtain an updated marking plan from the implementing partner within 90 days, and implement a plan to monitor the status of the implementing partner's marking plan.	USAID/Pakistan has obtained a revised marking plan from the implementing partner. Moreover, a mission-wide monitoring and evaluation contract was recently awarded. This contract includes responsibilities for the contractor to monitor the compliance of all implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements. This recommendation remains open.
						(9) USAID/Pakistan modify the cooperative agreement to require that cost-sharing contributions for all activities be calculated on a flexible, case-by-case basis.	The mission will modify the cooperative agreement to allow cost-sharing contributions on a flexible, case-by-case basis and expects the modification to be issued. This recommendation remains open.
						(10) USAID/Pakistan notify the program's implementing partner that the previously submitted cost-sharing contributions totaling \$4.7 million are ineligible, and amend the program's financial reports.	The mission will modify the cooperative agreement to allow cost-sharing contributions on a flexible, case-by-case basis and expects the modification to be issued. This recommendation remains open.

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
16	Audit of USAID/Pakistan's Firm Project (G-391-12-001-P)	3-Nov-11	To help improve Pakistan's economic stability, USAID/Pakistan awarded a 4-year, \$89.8 million contract in May 2009 to Chemonics International (Chemonics) to implement the Firms Project. The project's goal is to develop and improve the productivity and competitiveness of Pakistani small to medium-size firms by increasing exports and employment. In July 2010, 14 months after the award, USAID modified the project's goal to promote economic development in vulnerable areas as an alternative to extremism. The project set out to achieve its revised goal through two complementary components: Private Sector Development and Improvement of the Business-Enabling Environment. As of May 2011, USAID/Pakistan had obligated approximately \$42 million and expended \$29 million on the Firms Project. A review of the first 2 years showed that the Firms Project was not on track to achieve its main goal. Despite the mission's attempt to increase sales and employment in a number of sectors-leather, livestock, textile, dates, and mangoes-the audit found no measureable increases in sales or employment. Project did not increase sales or employment in the leather, livestock, textile, or date sectors because of shifts in U.S. Government strategy that resulted in the cancellation of these activities. Efforts to boost sales and jobs in the mango sector were stalled, and activities to improve competitiveness through economic policy reform were behind schedule. The audit disclosed the following problems with project implementation and management: Sector-specific activities did not increase sales or employment; the performance management plan did not meet Agency standards; the approving official did not provide sufficient procurement oversight; efforts to improve the business-enabling environment fell short; and the mission did not complete annual past performance evaluations.	9	5	(2) USAID/Pakistan develop and implement a performance management plan for the Firms Project that complies with USAID's Automated Directives System 203 and adjusts targets to reflect strategy shifts, delays, and current conditions.	A management decision can be reached upon report issuance. The Economic Growth office is revising the PMP so that the results framework reflects the shift in geographical focus, the change in scope, and current conditions. This recommendation remains open.
						(5) USAID/Pakistan determine the allowability of \$1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable.	The Office of Acquisition and Assistance, the Office of Financial Management, and the technical office Economic Growth will investigate the unsupported questioned costs and make a decision on those costs. A management decision on this recommendation will be reached when USAID/Pakistan determines whether the questioned costs are allowed or disallowed; final action will occur when any disallowed amount is collected. This recommendation remains open.
						(6) USAID/Pakistan verify that Chemonics has corrected all procurement deficiencies identified in this report.	A management decision can be reached upon report issuance. The mission plans a financial review of Firms Project costs that will verify that Chemonics has corrected all procurement deficiencies identified in this report. This recommendation remains open.
						(8) USAID/Pakistan reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals.	A management decision can be reached upon report issuance. The Economic Growth office has been working with Chemonics to develop an improved set of results and corresponding indicators that cover the business-enabling environment component. This recommendation remains open.
17	Audit of USAID/Pakistan's Energy Efficiency and Capacity Program (G-391-12-002-P)	23-Nov-11	Pakistan suffers power blackouts of 4 to 16 hours per day because of severe supply shortages. To help address this problem, USAID/Pakistan initiated the Energy Efficiency and Capacity Program in March 2009. The mission awarded a 3-year, \$23.5 million contract to the International Resources Group to focus on training in the energy sector and on a variety of conservation activities throughout Pakistan, such as assisting industries with conservation plans. During the first year, the mission spent about \$2.1 million on these activities with modest progress. As of September 15, 2011, the program was substantially short of its goal of replacing 11,000 pumps by March 2012 to reduce energy demand. Mission officials reported that farmers had replaced 963 pumps (9 percent of 11,000 planned). Replacing this number of pumps was not efficient. USAID's replacement cost increased from the original estimate of \$1,400 to nearly \$8,500 each because contractor administrative fees were distributed over 963 pumps replaced rather than over the anticipated 11,000 pumps. We estimate that 1,500 pumps will have been replaced by March 2012 when the contract ends. The major contributing factor to the lack of progress in achieving the program goal was problems with program implementation, including failure to address farmers' reluctance to participate. A shift in high-level U.S. Government strategy in the latter part of 2009 to use local contractors and historic flooding in July 2010 also delayed program implementation. Some factors beyond the mission's control hindered program progress.	2	1	(1) USAID/Pakistan discontinue the tube well program under the Energy Efficiency and Capacity Program at the end of the contract period unless the mission develops an action plan to reach program goals.	USAID/Pakistan stated that it has developed a revised business plan to improve program deliverables and achieve the target goals. The mission is expected to approve the business plan by January 31, 2012. A management decision has been reached on Recommendation 1. This recommendation remains open.
15						<b>Total Recommendations</b>	<b>68</b>
						<b>Total Closed Recommendations</b>	<b>52</b>

## Pakistan Financial Audit Findings

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
1	Financial Audit of USAID/Pakistan's <a href="#">Rupee Trust Fund for Operating Expenses</a> , for Fiscal Years Ended September 30, 2002, 2003, and 2004	5-391-06-003-N	10-Jan-2006	432,270			
2	Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from November 7, 2003, to June 30, 2004	5-391-06-020-R	11-May-2006	1,805,257	830		
3	Quality Control Review of the Audit Report and Audit Documentation for the Financial Audit Conducted by Ford Rhodes Sidat Hyder & Co., Pakistan, of the Program Titled 'Improved Pakistani Family Planning and Reproductive Health Services,' USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from November 7, 2003, to June 30, 2004	5-391-06-003-Q	26-Sep-2006				
4	Financial Audit of the <a href="#">Rural Support Programmes Network</a> —USAID Grant Rewarding Innovations at the District Level, Agreement No. 391-A-00-03-01015-00, for the 9-Month Period Ended June 30, 2004	5-391-06-031-R	13-Sep-2006	471,255			
5	Financial Audit of the <a href="#">Rural Support Programmes Network</a> —USAID Grant Rewarding Innovations at the District Level, Agreement No. 391-A-00-03-01015-00, for the Period Ended June 30, 2005	5-391-06-032-R	26-Sep-2006	997,500			
6	Financial Audit of the Developing Non-Bankable Territories for Financial Services Project, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by <a href="#">Khushhali Bank</a> , for the Period from October 1, 2003, to December 31, 2004	5-391-06-033-R	27-Sep-2006	1,853,591			
7	Quality Control Review of the Audit Report and Audit Documentation for the Financial Audit Conducted by <a href="#">KPMG Taseer Hadi &amp; Co., of the Aga Khan University - Examination Board (AKU-EB)</a> , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from July 1, 2003, to December 31, 2004	5-391-07-001-Q	6-Oct-2006				
8	Financial Audit of the Four Year Bachelor's Degree Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College, Lahore</a> , for the Period from August 23, 2004, to June 30, 2005	5-391-07-006-R	12-Jan-2007	764,472			
9	Financial Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the <a href="#">Pakistan Poverty Alleviation Fund (PPAF)</a> for the Period from October 1, 2003, to June 30, 2005	5-391-07-007-R	12-Jan-2007	3,194,633	1,999,553	1,639,230	Questioned costs related to ineligible loans by the recipient.

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
10	Financial Audit of the Fulbright-USAID Scholarship Program, Grant Agreement No. 391-G-00-04-01035-00, Managed by the <a href="#">United States Educational Foundation in Pakistan</a> , for the Period from September 1, 2004, to August 31, 2005	5-391-07-010-R	22-Feb-2007	234,757			
11	Financial Audit of the <a href="#">Aga Khan University Examination Board</a> , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from July 1, 2003, to December 31, 2004	5-391-07-014-R	3-May-2007	771,546			
12	Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from November 7, 2003, to June 30, 2004	5-391-07-020-R	25-Jul-2007	1,805,257	34,804		
13	Financial Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the <a href="#">Pakistan Poverty Alleviation Fund</a> for the Period from July 1, 2005, to June 30, 2006	5-391-07-023-R	22-Aug-2007	1,160,768	951,400	921,512	
14	Financial Audit of the Year Bachelor's Degree Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College, Lahore</a> , for the Period from July 1, 2005, to June 30, 2006	5-391-07-024-R	28-Sep-2007	769,134			
15	Financial Audit of the Project Titled "Technical Assistance and Training to Improve Project and Financial Management of Provincial and District Health and Population Welfare Services in Pakistan," USAID/Pakistan Limited Scope Grant Agreement No. 391-G-00-04-01020-00, Managed by the <a href="#">Options Consultancy Services Limited (Options)</a> - Technical Assistance Management Agency (TAMA), for the Period from January 1, 2004, to March 31, 2006	5-391-08-005-N	20-Aug-2008	697,058			
16	Financial Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by <a href="#">Khushhali Bank</a> , for the Period from January 1, 2005, to December 31, 2006	5-391-08-017-R	15-Apr-2008	2,662,527	82,126	66,916	
17	Financial Audit of the <a href="#">Aga Khan University - Examination Board (AKU-EB)</a> , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2005, to December 31, 2005	5-391-08-027-R	2-Jul-2008	902,755			
18	Closeout Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the <a href="#">Pakistan Poverty Alleviation Fund (PPAF)</a> for the Period from July 1, 2006, to September 30, 2007	5-391-08-029-R	15-Aug-2008	734,597			

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
19	Closeout Audit of the Programs Titled "Rewarding Innovation at the District Level," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01015-00 for the Period from July 1, 2005 to March 31, 2006, and "Establishing Tent Schools and Cash for Work Program," Grant Agreement No. 391-G-00-06-0169-00 for the Period from December 9, 2005, to June 15, 2006; Managed by <a href="#">Rural Support Programmes Network (RSPN)</a>	5-391-08-030-R	27-Aug-2008	2,847,871	222,294	222,294	
20	Financial Audit of the Program Title "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from July 1, 2004, to June 30, 2005	5-391-08-032-R	19-Sep-2008	5,707,948			
21	Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from July 1, 2005, to June 30, 2006	5-391-08-034-R	25-Sep-2008	5,399,408			
22	Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from July 1, 2006, to June 30, 2007	5-391-08-035-R	26-Sep-2008	4,295,177			
23	Financial Audit of the Interactive Teaching and Learning Program in Pakistan, USAID/Pakistan Cooperative Agreement No. 391-A-00-06-01075-00, Managed by the <a href="#">Children's Resources International Pakistan (G) Limited</a> (CRI Pakistan), for the Period from March 1, 2006, to June 30, 2007	5-391-09-006-R	15-Dec-2008	1,557,736	763,449	158	
24	Financial Audit of the <a href="#">Aga Khan University - Examination Board</a> (AKU-EB), USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2006, to December 31, 2006	5-391-09-007-R	29-Apr-2009	979,040			



No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
25	Financial Audit of the College Improvement Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College</a> , Lahore, for the Period from August 23, 2004, to June 30, 2007	5-391-09-008-R	30-Apr-2009	2,631,254	1,163,564	56,008	
26	Quality Control Review of the Audit Report and Audit Documentation for the Financial Audit Conducted by A.F. Ferguson & Co. of the College Improvement Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College</a> , Lahore, for the Period from August 23, 2004, to June 30, 2007	5-391-09-001-Q	30-Apr-2009				
26	Financial Audit of USAID/Pakistan's <a href="#">Rupee Trust Fund for Operating Expenses</a> , for Fiscal Years Ended September 30, 2005, and 2006	5-391-09-002-N	11-May-2009	979,028			
28	Financial Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by <a href="#">Khushhali Bank</a> , for the Period from January 1 to December 31, 2007	5-391-09-013-R	25-Jun-2009	1,776,113			
29	Financial Audit of the Budgetary Support, USAID/Pakistan Program Assistance Agreement Nos. 391-005-ES-05 and 391-005-ES-06, Managed by the <a href="#">Ministry of Finance, Government of Pakistan</a> , for the Years Ended June 30, 2006, and 2007	5-391-09-006-N	13-Aug-2009	400,000,000			
30	Financial Audit of USAID Funds Managed by <a href="#">Children's Global Network Pakistan (G) Limited</a> (formerly Children's Resources International Pakistan (G) Limited), for the Year Ended June 30, 2008	5-391-10-012-R	22-Dec-2009	1,863,786	376,942	242	
31	Closeout Financial Audit of the <a href="#">Aga Khan University - Examination Board</a> (AKU-EB), USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2007 to December 31, 2007	5-391-10-020-R	10-Feb-2010	1,853,975	63,367	63,367	
32	Closeout Financial Audit of the Program Entitled "Improved Pakistani Family Planning and Reproductive Health Services:" USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by <a href="#">Greenstar Social Marketing Pakistan (Guarantee) Limited</a> , for the Period from July 1, 2007 to December 31, 2007	5-391-10-026-R	24-Mar-2010	2,146,908			

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
33	Financial Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by <a href="#">Khushhali Bank</a> , for the Year Ended December 31, 2008	5-391-10-029-R	30-Apr-2010	1,653,377	89,934	65,652	
34	Financial Audit of the College Improvement Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College</a> , Lahore, for the Period from July 1, 2007 to June 30, 2009	5-391-10-033-R	18-May-2010	394,255			
35	Financial Audit of the Pakistan Competitiveness Support Fund, USAID/Pakistan Grant Agreement No. 391-G-00-06-01073-00, Managed by <a href="#">Competitiveness Support Fund</a> (CSF), for the Period from February 3, 2006 to June 30, 2009	G-391-10-001-R	4-Aug-2010	5,637,011	355,471		
36	Audit of Costs Incurred under School Enhancement Program Component of the Pakistan Education Sector Reform Assistance Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01000-00, Managed by <a href="#">the RTI International</a> (RTI), for the Period from December 4, 2002 to December 31, 2007	G-391-11-001-D	8-Nov-2010	14,432,228			
37	Closeout Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by <a href="#">Khushhali Bank</a> , for the Period from January 1, 2009 to September 30, 2009	G-391-11-001-R	30-Dec-2010	450,607			
38	Closeout Audit of the Program "Interactive Teaching & Learning Project," "USAID/Pakistan Cooperative Agreement No. 391-A-00-06-01075-00, and Financial Audit of Program "Links to Learning Education Support to Pakistan," Sub-Award Under USAID/Pakistan Cooperative Agreement No. 391-A-00-08-01100-00, Managed by <a href="#">Children's Global Network Pakistan Limited</a> , for the Period from July 1, 2008 to February 26, 2010	G-391-11-002-R	8-Apr-2011	1,315,348	12,669		
39	Quality Control Review of the Audit Report and Audit Documentation for Financial Audits Conducted by Khalid Majid Rahman Sarfraz Rahim Iqbal Rafiq of the "Interactive Teaching & Learning Project," Managed by <a href="#">Children's Global Network Pakistan Limited</a> , Under USAID/Pakistan Cooperative Agreement No. 391-A-00-06-01075-00 for the Period from July 1, 2008, to February 26, 2010	G-391-11-001-Q	8-Apr-2011				

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs Over \$1 Million
40	Quality Control Review of the Audit Report and Audit Documentation for Financial Audit Conducted by Nasir Javaid Maqsood Imran, of Pakistan Competitiveness Support Fund, USAID/Pakistan Grant Agreement No. 391-G-00-06-10730, Managed by <a href="#">Competitiveness Support Fund</a> (CSF), for the Period from July 1, 2009 to June 30, 2010	G-391-11-002-Q	10-May-2011				
41	Financial Audit of the Pakistan Competitiveness Support Fund, USAID/Pakistan Grant Agreement No. 391-G-00-06-1073-00, Managed by <a href="#">Competitiveness Support Fund</a> (CSF), for the Period from July 1, 2009 to June 30, 2010	G-391-11-003-R	10-May-2011	2,184,844	2,822		
42	Financial Audit of USAID/Pakistan's <a href="#">Rupee Trust Fund</a> , for the Period from October 1, 2006 to September 30, 2009	G-391-11-001-N	26-May-2011	1,511,547			
43	Closeout Financial Audit of the Forman Christian College, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College</a> (FCC), for the Period from July 1, 2009, to March 31, 2010	G-391-11-004-R	23-Jun-2011	1,974,491	122,515	90,655	
44	Quality Control Review of the Audit Report and Audit Documentation for Financial Audit Conducted by A.F. Ferguson, of the Forman Christian College, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by <a href="#">Forman Christian College</a> (FCC), for the Period from July 1, 2009, to March 31, 2010	G-391-11-003-Q	23-Jun-2011				
45	Financial Audit of the Business Revitalization Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-10-01145-00, Managed by <a href="#">Khushhali Bank</a> , for the Period from February 6, 2010 to December 31, 2010	G-391-11-005-R	21-Sep-2011	8,443,128			
46	Financial Audit of the Budgetary Support, USAID/Pakistan Program Assistance Agreement No. 391-AAG-012-IL -02, Managed by <a href="#">the Benazir Income Support Program</a> (BISP), for the Period from September 30, 2009, to March 31, 2011	G-391-12-001-R	26-Oct-2011	85,000,000			
47	Financial Audit of the Budgetary Support to the Government of Pakistan, USAID/Pakistan Program Assistance Agreement No. 391-005-ES-07, Managed by <a href="#">Ministry of Finance</a> , for the Year Ended June 30, 2008	G-391-12-002-R	3-Nov-2011	200,000,000			
<b>47 Financial Audits Issued</b>				<b>\$774,292,457</b>	<b>\$6,241,740</b>	<b>\$3,126,034</b>	
<b>Percentage of Costs Audited</b>					<b>0.81%</b>	<b>0.40%</b>	

Alpha designation in report number

R = Recipient-contracted Audit

Q = Quality control review

D = Defense Contract Audit Agency Audit

N = Nonfederal audit

# **Planned Performance Audits of USAID/Pakistan-Funded Activities Fiscal Year 2012**

## **Audit of USAID/Pakistan’s Design for Sustainability in the Jamshoro Thermal Power Station Repair and Maintenance Activity**

USAID/Pakistan awarded an \$18 million agreement to the Government of Pakistan to repair the Jamshoro Thermal Power Station. This activity was scheduled to be completed by June 2011. One of the principal goals of U.S. development cooperation is to promote conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits.

This audit will determine whether USAID/Pakistan built sustainability into the Jamshoro Thermal Power Station Repair and Maintenance Activity.

*Status: Planned.*

## **Follow-up Audit of USAID/Pakistan’s Livelihood Development Program for the Lower Region of the Federally Administered Tribal Areas**

In February 2008, USAID/Pakistan signed a five-year \$150 million agreement with CHF International to implement this program. In December 2010, the Office of Inspector General issued an audit report entitled “Audit of USAID/Pakistan’s Livelihood Development Program for the Lower Region of the Federally Administered Tribal Areas” (Audit Report No. G-391-11-001-P).

This audit will focus on six of seven recommendations in that report (excluding a recommendation with questioned costs). Although none of the recommendations had been closed at the time of report issuance, the mission stated in its management comments that all recommendations would be closed by August 2011.

This audit will determine if USAID/Pakistan implemented the recommendations from Audit Report No. G-391-11-001, dated December 10, 2010, and whether those actions were effective.

*Status: Planned*

## **Audit of USAID/Pakistan's Assessment and Strengthening Program for Local Organizations and Government of Pakistan Entities**

In October 2010, USAID/Pakistan signed a \$19.5 million cooperative agreement with Rural Support Programme Network to implement USAID/Pakistan's Assessment and Strengthening Program for local organizations and Government of Pakistan entities. To provide assistance to the primary implementer, USAID/Pakistan signed cooperative agreements with Lahore University of Management Sciences for \$3.8 million and Associates in Development for \$8.9 million.

The primary objective of this program is to establish a mechanism that will enable USAID/Pakistan to work with more local implementing partners and host government institutions in providing technical assistance required to build the institutional capacity up to USAID standards.

This audit will determine whether USAID/Pakistan's Assessment and Strengthening Program improved the capacity of local organizations and Government of Pakistan entities to responsibly manage USAID funds.

*Status: Planned*

## **Audit of USAID/Pakistan's Benazir Income Support Program**

In 2008, the Government of Pakistan launched the Benazir Income Support Program to provide a permanent cash support mechanism for families in poverty. This program provides participating families about \$12 per month and to be delivered only to the senior female member of the family. In February 2010, USAID/Pakistan disbursed \$85 million to provide budgetary support to the Government of Pakistan. A second disbursement of \$75 million was made in July 2010 to support this program for a total of \$160 million.

This audit will determine whether USAID/Pakistan's cash transfer provided to the Benazir Income Support Program reached the intended beneficiaries.

*Status: Planned*

## **Audit of USAID/Pakistan's Gomal Zam Multipurpose Dam Project**

In 2010, the Government of Pakistan requested USAID to support the Gomal Zam Dam Project that was reportedly 88 percent completed. Consequently, in January 2011, USAID signed a \$40 million agreement with the Government of Pakistan's Water and Power Development Authority to provide funds to finish the project.

Once completed, the dam is projected to provide electricity to 25,000 households or 200,000 people, control flooding, and generate economic activity. Also after the irrigation component is completed, USAID expects about 191,000 acres will be served benefitting about 30,000 families.

This audit will determine whether USAID/Pakistan's Gomal Zam Multipurpose Dam Project is on track to meet its budget and timelines.

*Status: Planned*

## **Audit of USAID/Pakistan's Monitoring and Evaluation Program**

In June 2011, USAID/Pakistan signed a five-year \$71 million contract to handle its independent monitoring and evaluation program. Operating in high-threat locations such as Pakistan imposes unique constraints on USAID's normal mode of operations. Among these constraints has been the inability of USAID officials to adequately monitor program activities in the field.

This program will monitor project effectiveness by collecting data through conducting site visits, and by producing performance reports.

This audit will determine whether USAID/Pakistan is using results from its monitoring and evaluation program to manage its portfolio.

*Status: Planned*

## **Audit of USAID/Pakistan's Entrepreneurs Program**

In June 2009, USAID/Pakistan signed a \$30 million cooperative agreement with the Mennonite Economic Development Associates to implement the Empower Pakistan-Entrepreneurs Program.

This program is designed to increase the incomes of at least 75,000 small enterprise owners, the majority of whom will be women, covering 20 districts in Pakistan.

This audit will determine whether USAID/Pakistan's Empower Pakistan-Entrepreneurs program is increasing the incomes of at least 75,000 micro-entrepreneurs and small enterprise owners.

*Status: Ongoing*

## **Audit of USAID/Pakistan's Reconstruction Activities in Flood Affected Areas**

In October 2006, USAID/Pakistan signed a \$120 million contract with CDM Constructors, Inc. to provide services that support the implementation of USAID's Earthquake Program. Consequently in July 2010, after the heavy rainfall in multiple regions of Pakistan that led to devastating flooding, USAID expanded the contractor's activities to include reconstruction of 20 schools and a hospital in the flood affected areas.

This audit will determine whether USAID/Pakistan's reconstruction activities of schools and a hospital in the flood affected areas are being implemented effectively.

*Status: Planned*

# Pakistan Performance Audits

## Fiscal Year 2012

### Audit of USAID/Pakistan's Energy Efficiency and Capacity Program (G-391-12-002-P)

<b>Date:</b>	November 23, 2011
<b>Implementing Partner:</b>	Government of Pakistan
<b>Audit Period:</b>	July 2011 to February 2011
<b>Funding:</b>	As of September 2011, USAID/Pakistan had obligated \$14.9 million and spent \$10.2 million on the subject contract.

#### Background—Summary of Findings

To help address power blackouts and other severe supply shortages, USAID/Pakistan awarded a 3-year, \$23.5 million contract in March 2009 to the International Resources Group to focus on training in the energy sector and on a variety of conservation activities throughout Pakistan. In April 2010, in response to a shift in U.S. Government strategy, the mission modified the program's goal to focus on reducing energy demand through an activity to improve the efficiency of tube wells. This activity was designed to replace irrigation pumps used by farmers with more energy-efficient models.

In the first year of the program, OIG found that the mission had not achieved the majority of its targets. It had not helped any distribution companies implementing conservation strategies or any energy companies evaluating energy efficiency, upgrading equipment or with energy conservation plans.

It also had trained less than half the energy sector individuals intended.

After the shift in strategy, the mission planned to install 11,000 energy efficient irrigation pumps. Although a pilot phase determined that the activity was unlikely to succeed, the mission proceeded with the program. By September of 2011, less than 1,000 pumps, or 9 percent, had been installed. This was the result of multiple problems, including the mission setting unrealistic goals and budgets. For instance, the mission budgeted almost \$1,500 per pump, but in actuality paid almost \$9,000. In addition, partners and beneficiaries often did not participate as intended. The regional energy distribution company, a key partner, did not fully support the program and farmers would not pay the additional cost of installing the pump, including masonry and electrical work.



## **Recommendations—Management Decisions**

The audit report made two recommendations:

1. Discontinue the tube well program under the Energy Efficiency and Capacity Program at the end of the contract period unless the mission develops an action plan to reach program goals.

*USAID/Pakistan stated that it has developed a revised business plan to improve program deliverables and achieve the target goals. The mission is expected to approve the business plan by January 31, 2012. This recommendation remains open.*

2. Modify the Energy Efficiency and Capacity Program contract to reflect changes in the statement of work.

*On September 30, 2011, the Office of Acquisition and Assistance modified the contract to address changes made in the statement of work. This recommendation is closed.*

## **Audit of USAID/Pakistan’s FIRMS Project (G-391-12-001-P)**

**Date:** November 3, 2011

**Implementing Partner:** Chemonics International

**Audit Period:** February 2011 through June 2011

**Funding:** As of May 2011, USAID/Pakistan had obligated \$42 million and expended approximately \$29 million on the project. In May of 2009, an \$89.8 million agreement was signed.

### **Background—Summary of Findings**

To help improve Pakistan’s economic stability, USAID/Pakistan awarded a 4-year, \$89.8 million contract to Chemonics International to implement the Firms Project. In 2010, 14 months after the project began, USAID modified the project goal to promote economic development in vulnerable areas as an alternative to extremism.

Despite the mission’s attempt to increase sales and employment in a number of sectors—leather, livestock, textile, dates, and mangoes—project activities did not increase sales or employment. Efforts to boost sales and jobs were stalled, and activities to improve competitiveness through economic policy reform were behind schedule. This is in part because of shifts in the mission’s strategy that resulted in the cancellation of these activities. In addition, the mission did not set realistic targets. For example, though Chemonics was tasked with working with the government of Pakistan to enact regulatory reform, they are not expected to achieve this by 2013. According to Chemonics, long term reform is a 10- to 12-year process because of all of the stakeholders involved.

The mission also focused activities around increasing sales and production of mangoes, but these activities were a year behind schedule. Further, the implementer intended to supply processing equipment to the mango farmers, but did not deliver them on schedule. One farmer did receive all of the equipment promised, but was unable to operate it because a design flaw prevented its assembly.

Although a performance management plan was approved by the mission, it did not comply with Agency standards. As a result, sales and employment figures were overstated and methods for collecting data are currently inconsistent and unreliable. In addition, the contracting officer’s technical representative (COTR) did not provide sufficient monitoring and oversight, in particular for the procurement process.

For instance, the COTR did not conduct any site visits to the project and approved over 20 invoices without knowing whether the material ordered had been received. Consequently, the mission did not discover multiple problems in the process.

## Recommendations—Management Decisions

The audit report made 9 recommendations:

1. Develop and implement a plan with measurable targets to help ensure the mango activity achieves its contract goals.

*The Office of Economic Growth (EG) has developed and implemented a monitoring plan to track the progress of the partner mango farmers. Final action has been taken, and Recommendation 1 is closed.*

2. Develop and implement a performance management plan for the Firms Project that complies with USAID's Automated Directives System (ADS) 203 and adjusts targets to reflect strategy shifts, delays, and current conditions.

*The EG office is revising the Performance Management Plan so that the results framework reflects the shift in geographical focus, the change in scope, and current conditions. Mission officials estimate that this document will be completed and implemented by January 31, 2012. A management decision has been reached on Recommendation 2. This recommendation remains open.*

3. Develop procedures to collect and analyze indicator results periodically to measure progress toward planned results in accordance with ADS Chapter 203.

*The mission has initiated a mission-wide independent monitoring and evaluation contract on all mission program activities. The scope of this contract is to provide verification, monitoring, evaluation, and reporting for all mission projects throughout Pakistan in compliance with ADS 203. Final action has been taken, and Recommendation 3 is closed.*

4. Instruct Chemonics to exclude from project sales totals all procurements from local vendors.

*The mission has instructed Chemonics to use the standard sales definition when reporting sales and not to include procurements from local vendors as increases to sales and employment. Final action has been taken, and Recommendation 4 is closed.*

5. Determine the allowability of \$1,359,337 in questioned costs (unsupported) and recover those costs determined to be unallowable.

*The Office of Acquisition and Assistance, the Office of Financial Management, and the technical office (EG) will investigate the unsupported questioned costs and make a decision on those costs. A management decision on this recommendation will be reached when USAID/Pakistan determines whether the questioned costs are allowed or disallowed; final action will occur when any disallowed amount is collected. This recommendation remains open.*

6. Verify that Chemonics has corrected all procurement deficiencies identified in this report.

*The mission plans a financial review of Firms Project costs that will verify that Chemonics has corrected all procurement deficiencies identified in this report on or by June 30, 2012. This recommendation remains open.*

7. Develop and implement procedures to conduct site visits to ensure goods and services acquired under the Firms contract are maintained in accordance with Agency property management standards and requirements.

*USAID/Pakistan has modified the contract to include procedures to conduct site visits to ensure that contract goods and services are received and maintained according to Agency standards. Final action has been taken, and Recommendation 7 is closed.*

8. Reassess the project component devoted to improving the business-enabling environment and develop meaningful targets that align with Firms Project goals.

*The EG office has been working with Chemonics to develop an improved set of results and corresponding indicators that cover the business-enabling environment component. The Logical Framework Analysis and PMP will be finalized by January 31, 2012. This recommendation remains open.*

9. Complete and file all past performance reports in accordance with federal and USAID policies and procedures.

*USAID/Pakistan initiated the process of completing and filing all past performance reports for years 2009 and 2010. As of September 2011, all past performance reports had been filed in the Contractor Performance Assessment Reporting System. Final action has been taken, and Recommendation 9 is closed.*



# Pakistan Performance Audits

## Fiscal Year 2011

### Audit of USAID/Pakistan's Community Rehabilitation Infrastructure (G-391-11-006-P)

<b>Date:</b>	August 29, 2011
<b>Implementing Partner:</b>	Winrock International
<b>Audit Period:</b>	February 2009 through March 31, 2011
<b>Funding:</b>	As of March 31, 2011, USAID/Pakistan had obligated \$41.9 million and expended approximately \$16.9 million on the program.

#### Background—Summary of Findings

One of the many problems facing Pakistan is poor infrastructure for delivering basic human services such as education, health care, water supply, sanitation, electricity, and transportation. To address these issues, USAID/Pakistan signed a 5-year, \$150 million cooperative agreement with Winrock International to implement the Community Rehabilitation Infrastructure Support Program (CRISP).

OIG found that the mission and CRISP had made very little progress toward achieving any of the main goals of the project. Although tasked with rebuilding or renovating up to 2,000 schools and constructing up to 350 small- to medium-sized infrastructure projects, the program was far behind schedule. Specifically, more than 2 years after signing the agreement, the mission had completed only four minor renovations of universities, six career centers, two design projects, and conducted two feasibility studies and the procurement of furniture and equipment for a children's health institute.

Part of the program's lack of progress was due to poor program design. Although Winrock is the main implementer, 70 percent of the award's budget was implemented by subcontractors, who in turn also employed subcontractors. Employing multiple subcontractors led to duplicate layers of construction oversight. According to the mission, Winrock did not have the staff or technical expertise to monitor subcontractors' management of the projects effectively. In the few cases where projects were completed, the mission often did not consider whether the project could be sustained. For instance, \$900,000 worth of furniture and equipment was delivered to the Khyber Institute of Child Health in Peshawar, but a year after its delivery, most of the material remained in storage unused. The institute's director said that the institute did not have the funding to support the operations of the facility, adding he could not even pay the monthly electric bill. By not ensuring that the institute was viable, the mission spent more than \$900,000 that could have been put to better use.

Moreover, an internal control was often bypassed in order to approve projects above \$500,000, which according to the project's activity approval document, required written consent. When the new mission director did not want to authorize the projects, the

mission established an unwritten policy to bypass this step and approved nearly \$13 million in projects that did not follow the program's objectives. Furthermore, the mission approved cost-sharing contributions from the project that cannot be supported.

## **Recommendations—Management Decisions**

The audit report made 10 recommendations:

1. Evaluate the implementing mechanism for the program and determine how to restructure it to realize efficiencies in program implementation.

*On May 17, 2011, the mission notified the program's implementing partner that USAID would be restructuring the program to prevent further program delays and inefficiencies. USAID believes that excluding large-scale construction projects from the program will allow the cooperative agreement to function within the capabilities and capacity of the program staff and will ensure that small-scale construction and other activities are undertaken effectively. The mission has taken steps to address this deficiency and the recommendation is closed.*

2. Establish performance indicators and targets for each activity implemented by CRISP, and document that the results of these activities are included in the mission's performance management plan.

*Mission officials informed us that they are revising the CRISP performance management plan, which will include targets for measuring results. As part of a mission-wide exercise to report on results generated by implementing partners, program resource management has worked closely with the CRISP team and the mission's technical teams to incorporate results in the mission's performance management plan. This recommendation has been closed.*

3. Develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health.

*The mission agreed with the recommendation. The mission planned to develop and implement an action plan to determine the best use for the equipment and furniture at the Khyber Institute of Child Health. This recommendation remains open.*

4. Revise the activity approval process to include a sustainability analysis for all infrastructure activities implemented under this program, regardless of the funding level.

*The mission planned to revise the CRISP activity approval process to include a sustainability analysis/plan for all infrastructure activities implemented under this program, regardless of the funding level. This recommendation remains open.*

5. Review the list of all educational institutions receiving assistance with construction supervision under the program's Infrastructure Support and Capacity Development Project

to determine whether any are religious institutions, and recover any costs deemed unallowable.

*The mission is obtaining further details on all educational institutions receiving assistance with construction supervision under the Infrastructure Support and Capacity Development Project. This information will be analyzed to determine whether any adjustments to programs, or recovery of unallowable costs, are warranted. The mission planned to convey these results to OIG/Pakistan under a separate memorandum on or before September 15, 2011. This recommendation is closed.*

6. Develop and implement a plan to increase awareness among mission and implementing partner staff of USAID's policy prohibiting the funding of religious activities.

*The mission, in coordination with the USAID/Washington Office of General Council, will develop and conduct training sessions for contracting and agreement officers' technical representatives regarding legal prohibitions including funding of religious activities. The mission will also instruct implementing partners to contact USAID for guidance if they suspect that a potential problem with funding religious institutions may arise. This recommendation remains open.*

7. Determine whether to amend or follow the program's internal control procedure requiring the mission director's approval for all activities exceeding \$500,000.

*Because funding is approved in the Activity Approval Document, the mission has decided to delete the procedure requiring the mission director's approval for all activities exceeding \$500,000 and will formalize this change in an action memo. This recommendation remains open.*

8. Obtain an updated marking plan from the implementing partner within 90 days, and implement a plan to monitor the status of the implementing partner's marking plan.

*The mission has obtained a revised marking plan from the implementing partner. Moreover, a mission-wide monitoring and evaluation contract was recently awarded. This contract includes responsibilities for the contractor to monitor the compliance of all implementers with the full terms of their agreement with USAID. This includes compliance with USAID branding and marking requirements. This recommendation remains open.*

9. Modify the cooperative agreement to require that cost-sharing contributions for all activities be calculated on a flexible, case-by-case basis.

*The mission will modify the cooperative agreement to allow cost-sharing contributions on a flexible, case-by-case basis. This recommendation remains open.*

10. Notify the program's implementing partner that the previously submitted cost-sharing contributions totaling \$4.7 million are ineligible, and amend the program's financial reports.

*The mission will issue a modification to the cooperative agreement, removing the rigid cost-sharing contribution requirement. The program's financial reports shall also be amended. This recommendation remains open.*



# **Audit of USAID/Pakistan’s Road Rehabilitation and Reconstruction Activities Under the Quick Impact Projects in South Waziristan (G-391-11-005-P)**

**Date:** June 20, 2011

**Implementing Partner:** Government of Pakistan

**Audit Period:** December 31, 2009, to February 2011

**Funding:** As of December 2009, USAID had committed \$55 million.

## **Background—Summary of Findings**

In 2009, the Governments of Pakistan and the United States signed a strategic agreement that provided a commitment to help generate broad-based economic growth through infrastructure development. According to the agreement, USAID is providing \$55 million directly to the Federally Administered Tribal Areas (FATA) Secretariat to implement Quick Impact Projects (i.e., rebuild roads, develop water infrastructure, and improve power systems).

The OIG conducted an audit of these activities in South Waziristan, part of FATA. Despite some difficulties OIG noted with mission operations, auditors determined that the road rebuilding efforts were on track. Two sections of road totaling 215 kilometers were completed to specifications and had met all requirements for reimbursement by USAID. Although security issues caused some delays, work progressed on schedule.

Multiple site visits by officials from the local satellite office in Peshawar have strengthened the management of the road activities, and the use of fixed-amount reimbursement agreements has reduced financial risk to the program.

The FATA Secretariat hired the Frontier Works Organization (Frontier Works) of Pakistan to carry out road activities. For additional support, Frontier Works subcontracted with the Pakistani engineering firm National Engineering Services Pakistan Limited (NESPAK). Both Frontier Works and NESPAK have extensive experience in building roads and other infrastructure projects, and both will work on all of the Quick Impact Projects in South Waziristan, including the water infrastructure and power systems. OIG found that these two entities contributed to the initial success of the road activities.

Despite early successes, however, OIG found room for improvement: The scope of work for the contractor to build the capacity of the FATA secretariat was too broad, and subsequent changes caused deliverables to be far behind schedule. Contract files were missing critical documentation such as branding and marking plans, site visit reports, meeting notes, and correspondence with contractors, including documentation related to extensions and justifications. Environmental assessments did not meet regulations and caused delays of up to 5 months. In addition, although no ethical problems arose; neither the mission nor the contractor had ethics procedures or policies

in place, as required, to ensure that employees working on projects were aware of

the USAID's ethical standards and its position on conflicts of interest.

## **Recommendations—Management Decisions**

The audit report made nine recommendations:

1. Designate one person in each technical office who has received training to oversee environmental compliance for projects and activities.

*The mission now has four individuals whose primary roles include environmental review responsibilities. The Mission Environmental Officer has also provided direct training to mission staff who manage programs to improve their monitoring environmental compliance for projects and activities. This recommendation is closed.*

2. Identify projects planned for the next three years to determine whether the mission has a sufficient level of support and technical expertise for environmental compliance.

*With a new re-focused sectoral strategy, the mission stated that it is ready to plan programs over the next three years. The mission stated that this, along with a management unit reduction exercise which was completed in March 2011, has increased its awareness of the environmental compliance issues related to its portfolio. This recommendation is closed.*

3. Revise the scope of work and reduce the contract amount for financial and management support for the Quick Impact Projects.

*The mission stated that the task of capacity building has been handed over to the Assessment and Strengthening Program (ASP). Associates in Development, a partner in the ASP Program, is reworking on the mapping report that was initially produced by Ernest & Young with a reduced scope of capacity building which has been agreed by the Director General-Directorate of Project, FATA Secretariat and USAID technical team at Peshawar. This recommendation is closed.*

4. Verify that the USAID contractor, Associates in Development, has a code of business ethics and conduct that meets USAID standards and regulations.

*The mission stated that the contract with Associates in Development was modified to incorporate the standard clause for code of business ethics and conduct that meets USAID standards and regulations. This recommendation is closed.*

5. Provide implementers with copies of USAID's policies on ethics and conflicts of interest and with written explanations and examples of potential conflicts.

*A management decision was reached upon report issuance. The mission agreed with the recommendation. The mission plans to circulate USAID guidance on ethics and conflicts of interest related to USAID award recipients to its implementers. This recommendation remains open.*

6. Designate personnel to provide guidance on conflicts of interest and to monitor implementers' compliance with ethics policies and procedures.

*The mission stated that the Offices of Acquisition and Assistance (OAA) Director in Pakistan, in cooperation with the Compliance and Oversight Division for Partner Performance in Washington, will be the designated person to provide guidance and monitor compliance of conflicts of interest and ethics policies and procedures with implementers. Similarly, Regional Legal Advisor (RLA) would be the focal person for all issues pertaining to monitoring and compliance of conflicts of interest and ethics in government-to-government arrangements. This recommendation is closed.*

7. Develop and implement a plan for periodic internal review of contract files for compliance.

*The mission has developed a plan for quarterly internal review of contract files. This plan provides guidelines for reviewing the Contracting Officer's Technical Representative (COTR)/Agreement Officer's Technical Representative (AOTR) files on a quarterly basis. The Acquisition and Assistance Specialist is responsible for reviewing the files in accordance with the responsibilities in the COTR/AOTR appointment letter. This recommendation is closed.*

8. Develop and implement a plan to monitor and document the status of contractors' branding and marking plans and provide training as necessary.

*A management decision was reached upon report issuance. The mission agreed with the recommendation and indicated that it would put a new monitoring & evaluation contract in place. This contract will monitor compliance of implementers with the full terms of their agreement with USAID. This is to include compliance with USAID branding and marking requirements as identified in their agreement and agency guidance. This recommendation remains open.*

9. Provide additional details to the FATA Secretariat concerning publicizing and marking USAID's contribution to the Quick Impact Projects.

*The mission agreed with the recommendation. The mission will engage a media support contractor to ensure wider dissemination of information about the range and impact of our assistance programs. The mission will assist the FATA Secretariat in publicizing and marking USAID's contribution to programs in FATA. This recommendation remains open.*

## **Audit of USAID/Pakistan’s Management of Preaward Assessments (G-391-11-004-P)**

<b>Date:</b>	May 6, 2011
<b>Implementing Partner:</b>	Pakistan’s Higher Education Commission; Health Services Academy; Ministry of Finance; Provincial Relief, Rehabilitation and Settlement Authority; United Bank Limited; Benazir Income Support; Rafi Peer Theater Workshop; Aga Khan University, Associates in Development; Children’s Global Network; Dosti Welfare Organization; Foreman Christian College; Rural Support Programmes Network; Sebcon Ltd; United States Educational Foundation; Habib Rafiq International Limited; Transparency International Pakistan; Anjum Asim Shahid Associates; Khushhali Bank; Pakistan Poverty Alleviation Fund; GreenStar Social Marketing; KPMG; Ages Consultants
<b>Audit Period:</b>	November 8, 2010, to January 28, 2011
<b>Funding:</b>	For fiscal years 2009 and 2010, USAID/Pakistan signed agreements with various Pakistani recipients, under which it obligated nearly \$588 million and disbursed approximately \$448 million.

### **Background—Summary of Findings**

The Enhanced Partnership with Pakistan Act of 2009 authorized \$7.5 billion in U.S. government assistance over 5 years to promote an enhanced strategic partnership with Pakistan and its people. In authorizing these funds, the act encourages the use of Pakistani firms and nongovernmental organizations to work with local leaders to build local capacity. To facilitate this strategy, USAID estimated that approximately 50 percent of fiscal year 2010 funding, or \$750 million, would go through Pakistani federal and provincial agencies and local organizations.

With the implementation of the strategy to build Pakistani capacity, concerns have been raised in the media and the U.S. Government that providing too much money to Pakistani recipients too quickly could jeopardize U.S. funds. USAID/Pakistan

recognized the challenges and took proactive steps to address the risks. A key step taken by the mission was to contract with international and local accounting firms to conduct preaward assessments of potential first-time recipients. The intent of these assessments is to determine whether the recipients can effectively manage and account for these funds.

OIG’s audit on USAID/Pakistan’s management of pre-award assessments found that mission’s preaward process provided a reasonable basis for identifying significant financial management vulnerabilities; however, the audit noted weaknesses in the mission’s management of the preaward process. The mission did not prioritize or follow up on significant vulnerabilities identified in assessments. Of the 28 assessment reports completed during fiscal

year 2010, the 8 selected for testing noted over 250 weaknesses in the potential recipients' ability to properly manage funds. The mission included 55 of the reported weaknesses in the recipients' agreements and stipulated that the weaknesses should be adequately addressed before or after the initial disbursement of funds. The mission did not include or otherwise address the remaining 195 weaknesses because it did not have a comprehensive plan for prioritizing

and determining which of the 250 weaknesses should or should not be prioritized.

Many weaknesses resulted from the mission not including in the recipients' agreements information on the recipients' payment mechanisms and systems for procurement, accounting and overall monitoring and assessment.

### **Recommendations—Management Decisions**

The audit report made four recommendations:

1. Develop and implement a risk-assessment model to use in determining which of the weaknesses identified in the preaward assessments should be addressed before or after the disbursement of funds.

*The mission concurred with this recommendation. The following corrective actions have been started to address the recommendation: The mission developed a Risk Mitigation Framework (RMF) to outline and determine actions to be taken based on the conditions/risks identified in the pre-award assessment report.*

*An RMF template has been developed and implemented missionwide. The mission is in the process of formalizing a standard template of the memo requesting approval from the Deputy Mission Director for the implementation of RMF actions. Corrective actions on this recommendation have been taken, and this recommendation is closed.*

2. Develop and implement a comprehensive tracking system with benchmarks and time frames for measuring progress on resolving weaknesses that are identified in the pre-award assessment reports.

*The mission concurred with this recommendation. The RMF has benchmarks and time frames for measuring progress resolving weaknesses that are identified in the pre-award assessment reports. The technical officer is responsible for keeping track of progress on resolving weaknesses within agreed timeframe. Corrective actions on this recommendation have been taken and this recommendation is closed.*

3. Develop and implement written guidelines to follow when determining whether pre-disbursement recommendations have been adequately addressed.

*The mission concurred with this recommendation and its RMF provides for the deliverables along with timelines, and indicates the responsible person/office to address the pre-award recommendations that mission management considers important. The technical officer does actively follow-up on the status of open conditions and keeps the involved offices updated as to the status and the related action items. Corrective actions on this recommendation have been taken, and this recommendation is closed.*

4. Develop and implement written procedures for reviewing the pre-award assessments reports, including guidelines for testing the supporting documentation.

*USAID/Pakistan's Office of Financial Management developed a plan and procedure for reviewing the preaward assessment reports and conducting tests of supporting documentation on a random sample of reports. This recommendation is closed.*

# **Audit of USAID/Pakistan’s Flood Relief Efforts as Administered by Local Nongovernmental Organizations (G-391-11-003-P)**

<b>Date:</b>	January 24, 2011
<b>Implementing Partner:</b>	Pakistan Poverty Alleviation Fund (PPAF) and Rural Support Programmes Network (RSPN)
<b>Audit Period:</b>	August 13, 2010 to November 15, 2010
<b>Funding:</b>	As of November 30, 2010, USAID had obligated approximately \$5 million and expended \$3.7 million.

## **Background—Summary of Findings**

Heavy rainfall in multiple regions of Pakistan led to devastating flooding in July 2010. The flooding affected 82 of Pakistan’s 122 districts and displaced 12 million people, half of whom required humanitarian assistance.

USAID/Pakistan committed \$10 million for emergency flood relief efforts through cooperative agreements. Five million dollars was awarded to two Pakistani nongovernmental organizations (NGOs): PPAF and RSPN.

The two NGOs were to provide immediate relief in the provinces of Balochistan, Punjab, Sindh, and Khyber Pakhtunkhwa in the form of food hampers and hygiene kits, and medical supplies to an affected population of 190,058 people.

OIG conducted this audit to determine whether USAID/Pakistan’s flood relief efforts were meeting the immediate needs of the flood victims. To answer the audit objective, we reviewed mission documentation related to managing and monitoring the program, including

implementation plans, implementing partner agreements, performance measures, and performance results.

Auditors found that USAID/Pakistan’s implementing partners delivered food hampers, hygiene kits, and medical supplies to meet the immediate needs of the flood victims. As of November 15, 2010, the two implementers reported distributing food and hygiene kits to 80,098 households and administering medical supplies and treatment to an affected population of 159,620 people and 307,116 livestock.

Auditors observed that PPAF issued food hampers and hygiene kit tokens to each household. PPAF established separate teams for token registration, token distribution, and distribution of the relief items. In establishing a distribution policy, PPAF gave priority to households that had not received any aid from other donors.

Auditors observed that PPAF teams followed the organization’s distribution policy. First, the team responsible for distribution of the

relief items matched recipients' tokens and Pakistani national identity cards to recipients' names on the master token distribution list. Second, the team directed recipients to a

counter where they exchanged their tokens for food hampers and hygiene kits. Lastly, the team collected recipients' signatures or thumb impressions to record the transaction.

### **Recommendations—Management Decisions**

The audit report made no recommendations. Therefore, no additional action was required by USAID/Pakistan to address the results of this audit report.



# **Audit of USAID/Pakistan’s Livelihood Development Program for the Upper Region of the Federally Administered Tribal Areas (G-391-11-002-P)**

**Date:** December 10, 2010

**Implementing Partner:** Academy for Educational Development

**Audit Period:** April 2008 to June 2010

**Funding:** As of June 2010, USAID had obligated approximately \$60 million and expended approximately \$46.8 million.

## **Background—Summary of Findings**

The Federally Administered Tribal Areas (FATA) of Pakistan have high unemployment, widespread poverty, and separate legal structures. Located in northwestern Pakistan, FATA shares its rugged and mountainous border with Afghanistan. Extremist and terrorist groups take advantage of the geographic and social isolation and lack of governing systems to exert their influence on the people of this region. Development in FATA has become vital to Pakistan’s progress in fighting insurgents.

The main goal of the Livelihood Development Program is to provide social and economic stabilization in FATA to counter the growing influence of extremist groups. The program has three components: 1) creating jobs, increasing incomes, and teaching employable skills with a focus on unemployed youth, 2) revitalizing community infrastructure and essential services, and 3) supporting established businesses and developing new sustainable businesses.

After a review of the first two years of activities, OIG found that the program has not achieved its main goal of social and economic stabilization to counter the

growing influence of extremist and terrorist groups in upper FATA. The mission had no baseline data to determine progress toward countering the influence of these groups. In addition, the program had executed only 53 percent of planned activities, and program outcomes were weak.

Security issues were the main cause of the delays and poor performance. Specific incidents included the assassination of the chief of party for the lower FATA’s implementer, the kidnapping of an aid worker, and threats to monitoring teams. Allegations of wrongdoing also impeded progress. The implementer stated that program activities were delayed because the implementer had to counter these allegations and because of additional tiers of oversight put in place to ensure greater accountability. Moreover, program activities stopped for six months until security measures were improved and a new chief of party was appointed.

Two additional factors contributed to program delays. First, USAID/Pakistan used program resources to provide humanitarian and disaster assistance to flood victims and internally displaced persons fleeing conflict

areas of FATA. The assistance began in August 2008, only months after the upper FATA program started, and continued until the implementer's termination. Mission officials acknowledged that the work diverted time and resources from Livelihood Development Program (LDP) activities. Second, in September 2009 the U.S. Department of State (State Department) initiated a shift in strategy toward using more Pakistani institutions to implement USAID programs. During this time, all USAID/Pakistan incremental funding requests went through the State Department for approval. The delays in incremental funding created more budgetary problems for the program.

Despite some successes, overall progress for program activities was slow, largely because of the intervening factors already mentioned. Although some factors were beyond the mission's control, USAID/Pakistan needs to address the following problems that are within its control. USAID/Pakistan staff did

not follow management controls. Technical staff in the mission addressed contractual matters that should be handled only by the agreement officer or took action without proper approvals.

Additionally, USAID/Pakistan relied on contractors to perform services closely related to inherently governmental functions. A third-party contractor's conflict of interest in overseeing another contractor's work created risks when the mission did not address the gap in services created by the conflict.

The auditors did not suggest terminating the program. The audit shows that performance deteriorated when USAID/Pakistan staff overrode management controls and bypassed organizational structures. Much time and funding went toward disaster response and emergency relief efforts, draining resources from the planned LDP activities. In addition, allowing outside pressures to take precedence over important management controls led to poor results in work

## **Recommendations—Management Decisions**

The audit report made five recommendations:

1. Develop and implement a periodic training program for mission staff that clearly defines the authority, responsibility, and accountability of agreement officers, technical representatives, and program staff.

*Mission management concurred with this recommendation. OAA at USAID/Pakistan has already issued three Acquisition and Assistance Notices subsequent to issuance of this audit report that establish clear policies for mission staff on these matters. A notice regarding conflict of interest was issued, a notice on out of scope changes was issued, and finally a notice on Continuing Education for Contracting and Assistance Officer Technical Representatives (COTR/AOTR) was issued. This recommendation is closed.*

2. Develop a plan, in compliance with Federal Acquisition Regulation 37.114 and the OMB guidance to provide proper oversight and management of contractors that support contract and agreement administration.

*The mission planned to develop a matrix to assist with the mission's oversight and management of contractors, including supervisors of technical representatives. The mission compiled the matrix and vetted it among mission offices. The matrix was implemented as a tool to determine whether or not each contractor has an acceptable level of adequate oversight. This recommendation is closed.*

3. Analyze the mission's internal capability for control and management of contractors working on the Livelihood Development Program, taking into account the goals of the program, the complexity of the work, the need for specialized skills, and the effect of contractor default on the program performance.

*The mission agreed with the recommendation and planned to complete its analysis by June 30, 2011. This recommendation is closed.*

4. Develop and implement a mission workforce plan with guidelines for the consideration of using more U.S. federal personnel (known as U.S. direct hires) for positions involved in services closely associated with inherently governmental functions.

*The mission scheduled a review of the mission's staffing levels in December 2010. This team planned to suggest changes as necessary to the mission director on staffing levels, with the goal of optimizing overall programmatic and support staff levels based on the current workload and other relevant issues. This recommendation is closed.*

5. Develop and implement definitive plans for the Livelihood Development Program regarding the shift toward more direct funding to Pakistani institutions, including incremental funding, budgets, transition plans, and any other information that requires modifications of relevant agreements and contracts.

*The mission concurred with this recommendation. Cooperative Agreement No. 391-A-00-08-01107 for FATA Livelihood Development Programs was terminated on June 4, 2010. A Deputy Mission Director has since been assigned to the Peshawar Consulate to communicate changes to implementation plans as a representative of USAID/Pakistan. The recommendation was closed.*

# **Audit of USAID/Pakistan's Livelihood Development Program for the Lower Region of the Federally Administered Tribal Areas (G-391-11-001-P)**

**Date:** December 10, 2010

**Implementing Partner:** N/A

**Audit Period:** March 2008 to March 2010

**Funding:** As of March 31, 2010, USAID had obligated approximately \$30 million and expended approximately \$48 million.

## **Background—Summary of Findings**

Pakistan's mountainous FATA is located on the border with Afghanistan. FATA is one of the most underdeveloped regions in Pakistan, where only 17 percent of the overall population is literate. FATA's weak economy, widespread unemployment, lack of social services, and ineffective government make it susceptible to the spread of extremism. According to USAID/Pakistan, countering extremist influences in FATA will require a robust economic development program. In response to this need, USAID/Pakistan established the FATA Livelihood Development Program.

The main goal of the program is to provide social and economic stabilization in FATA to counter the growing influence of extremist groups. To measure progress in attaining this goal, the mission established outcome measures and targets for each measure. Targets for the program include creating 29,375 long-term jobs and reaching a goal of 55 percent of FATA citizens expressing satisfaction with the basic public services by March 2013.

OIG audited the program to determine whether it was achieving its main goal of

social and economic stabilization in the lower FATA region.

The audit found that USAID/Pakistan had made little progress in reaching annual targets. It must be emphasized that the main cause for the program achieving so little was the hostile environment in FATA. The implementing partner experienced kidnappings, harassments, and the tragic assassination of its chief of party in November 2008; consequently, program activities stopped for 6 months until security measures were improved and a new chief of party took office. During this time, the implementing partner relocated its country office from Peshawar to Islamabad.

Although the hostile situation contributed to the program's limited results, the mission did not ensure adequate monitoring and oversight to achieve program goals. In addition, the program's ability to achieve planned results was hindered by a strategic shift in U.S. Government strategy and the mission's request to provide humanitarian assistance activities.

In September 2009, the U.S. Government's strategy shifted toward greater involvement of

Pakistani organizations in implementing U.S. assistance programs. As a result, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers.

As a result of the setbacks and shifts in implementation, program funds were not used efficiently. For example, according to the implementing partner, it expended \$29.2 million in the first 2 years of the program; however, only \$7.6 million was

spent on direct program activities, \$2.7 million of that going to humanitarian assistance activities.

To improve program implementation, we recommend that the mission revisit the program's measures and targets to ensure they are in line with overall program goals and that progress can be measured; improve monitoring of the program; and collaborate more closely with implementing partners regarding security in FATA.

## **Recommendations—Management Decisions**

The audit report made seven recommendations:

1. Revise the implementer's third-year implementation plan to establish ambitious, yet achievable, targets, outcomes, and goals, and modify the cooperative agreement to reflect these changes.

*A management decision was reached upon issuance of the audit report. USAID/Pakistan issued a modification to a cooperative agreement on December 23, 2010, approving a revised third-year implementation plan to establish ambitious yet achievable targets with a focus on new work activities in the areas of agriculture, agribusiness development, minerals and mining during year three implementation. This recommendation is closed.*

2. Develop and implement a plan to collect baseline data so that progress in achieving the program's outcomes and goals can be measured throughout the remainder of the program.

*A management decision was reached upon issuance of the audit report. USAID/Pakistan signed a contract with Development Executives on July 29, 2011, to conduct a mid-term evaluation of the subject project. The cooperative agreement was also modified to include PakInfo tracking and reporting requirements for program monitoring and progress in achieving program outcomes which is to be measured throughout the life of the program. This recommendation is closed.*

3. Develop written procedures to document, track, and take corrective action on all deficiencies identified in reports by independent monitoring reviewers.

*A management decision was reached upon issuance of the audit report based on the RIG/Pakistan agreement to the USAID/Pakistan comments dated November 29, 2010. USAID/Pakistan in consultation with the implementing partner developed procedures for documenting and tracking third party observations for this program. The procedures require the implementing partner to submit a monthly report from third party monitors and rectify identified deficiencies. In addition, an independent review team revisits the implementer to verify the corrective measures were taken. This recommendation is closed.*

4. Verify that material internal control weaknesses identified in the financial review are corrected, and document the results.

*A management decision was reached upon issuance of the audit report based on the RIG/Pakistan agreement to the USAID/Pakistan comments dated November 29, 2010. USAID/ Pakistan's Office of Acquisition and Assistance certified that all material internal control weaknesses identified in the financial review have been satisfactorily addressed. The recent annual audit report for FY2010 does not identify any control weaknesses. This recommendation is closed.*

5. Make a management decision regarding the allowability of and recover, as appropriate, questioned costs of \$767,841 (\$432,482 ineligible and \$335,359 unsupported) identified in the financial review and recover those costs determined to be unallowable.

*The Office of Acquisition and Assistance will work in collaboration with the Office of Financial management and technical offices to investigate the allowability of the questioned costs. This recommendation remains open.*

6. Issue a mission order that establishes security standards to be used when reviewing implementing partners' security plans and when collaborating with these partners throughout implementation

*A management decision was reached upon issuance of the audit report. USAID/Pakistan issued a Mission Order entitled "Submission and Review of Security Plans of Implementing Partners" establishing security guidance procedures for implementing partners on February 7, 2011. This recommendation is closed.*

7. Revisit the implementing partner's approved request for additional security funding, document any adjustment needed, and make a written determination regarding the provision of funding.

*A management decision was reached upon issuance of the audit report. USAID/Pakistan issued a memorandum to re-orient FATA Livelihood Development Program to bring new partners on board and allow the implementing partner to continue with their ongoing activities with funds already sub-obligated in the agreement. However, the requirement to revisit the additional security funding is not required as the cooperative agreement with the implementing partner will run out of funds and close out by the end of 2011. This recommendation is closed.*



# Pakistan Performance Audits

## Fiscal Year 2010

### Audit of USAID/Pakistan's Family Advancement for Life and Health Program (5-391-10-012-P)

<b>Date:</b>	August 31, 2010
<b>Implementing Partner:</b>	The Population Council
<b>Audit Period:</b>	June 1, 2007, through April 28, 2010
<b>Funding:</b>	As of April 28, 2010, \$48.4 million had been obligated and \$26.8 million expended.

#### Background—Summary of Findings

In 2007, USAID/Pakistan signed a cooperative agreement with the Population Council, a U.S.-based nongovernmental organization, to implement Family Advancement for Life and Health (FALAH). FALAH is a 5-year, \$60.4 million program intended to increase demand for and use of birth spacing and family planning services in 26 districts in Pakistan. The country has a relatively high rate of population growth, and in 2009 the estimated Pakistani population was about 181 million—the sixth largest in the world.

OIG's audit found that FALAH was achieving its main goals. Among its accomplishments were:

- **An increased demand for family planning services.** Program implementers provided family planning information to more than 2 million men and women. In addition, program messages on birth spacing and family planning services have blanketed the media. Almost

28,000 commercials were aired during November and December 2009 alone.

- **Improved family planning services in the public sector.** Program implementers have placed a team of master trainers in each of the 26 program districts. The trainers are expected to support group meetings in the community and help public health care providers better serve their clients. Fifty-nine percent of all public service delivery points in the FALAH districts have trained providers for family planning counseling and services in their facilities. Furthermore, FALAH plans to equip 80 percent of public service delivery points in program districts to provide appropriate family planning services by the end of the program.
- **Improved family planning services in the private sector.** Improved family planning services in the private sector



were being led by Greenstar Social Marketing, a Pakistani nongovernmental organization. The program hopes to expand the number of Greenstar health care providers to 1,000 in the program's rural areas. As of December 31, 2009, Greenstar had established 557 new providers

and completed training for more than 4,000 health care providers overall. Greenstar also conducted meetings at factories and other workplaces to discuss the benefits of birth spacing and is operating a national hotline serviced by its physicians.

## **Recommendations—Management Decisions**

The audit report made one recommendation:

1. That USAID/Pakistan require the Population Council to prepare and implement a plan of action for completing all required financial audits for non-U.S. nonprofit organizations that received funding under the FATA Program.

*USAID asked Population Council to develop and implement the detailed plan of action for completing all the required financial audits for non-U.S. nonprofit organizations that received funding under the FALAH Program. This recommendation is closed.*

# **Audit of USAID/Pakistan’s Primary Healthcare Revitalization, Integration and Decentralization in Earthquake-Affected Areas Project (5-391-10-010-P)**

**Date:** June 28, 2010

**Implementing Partner:** International Rescue Committee, Management Sciences for Health, Jhpiego (an affiliate of Johns Hopkins University), and the Population Council

**Audit Period:** October 2006 to October 2009

**Funding:** As of October 31, 2009, USAID had obligated approximately \$19.7 million and expended approximately \$15.5 million.

## **Background—Summary of Findings**

On October 8, 2005, a magnitude 7.6 earthquake in northern Pakistan claimed more than 74,000 lives and left 3.5 million people homeless. More than half of the deaths occurred in the Mansehra District in the North-West Frontier Province and the Bagh Districts of Azad Jammu and Kashmir. Thousands of teachers, health care providers, and civil servants were among those killed or badly injured. Public systems that had supported essential services, including logistics and administration for health care, no longer existed. In response to this disaster, USAID/Pakistan designed the Primary Healthcare Revitalization, Integration, and Decentralization in Earthquake-Affected Areas (PRIDE) Project and awarded a \$28.5 million cooperative agreement to the International Rescue Committee (IRC), a U.S.-based nongovernmental organization, to provide technical support to the public sector health system in the earthquake-affected districts of Mansehra and Bagh through a consortium of implementers including Management Sciences for Health, Jhpiego, and the Population Council. The project’s three main goals were to (1) improve public health service and management system

performance, (2) increase access to primary health care services, and (3) promote healthier behaviors and community participation in health services.

The audit found that the project had contributed to improving the quality of primary health care services, but much work needed to be done to improve access to these services—particularly with regard to referring patients to facilities that offer a higher level of health care when patients’ conditions could not be treated at primary health care facilities.

To promote wider access to such services, the project had planned to strengthen the patient referral system. However, the preliminary planning for improving the referral system was completed a year later than anticipated, and—at the time of the audit—an improved system had not yet been implemented. Delays were attributed to the lack of availability of Government of Pakistan staff scheduled to work with the project implementer. Moreover, other project activities took precedence over revamping the patient referral system.

## Recommendations—Management Decisions

The audit report made one recommendation:

1. That USAID/Pakistan develop and implement an action plan to improve the patient referral system in both project districts. This plan should include provisions to establish proper communication procedures between primary health care centers and higher level facilities, disseminate improved procedures to participating facilities and provide training as necessary, and establish effective supervisory review of referral cases.

*Project managers prepared and implemented a plan to address the audit recommendation on improving the patient referral system in both project districts. The project established a communications system for all referrals including an initial phone call to the facility of referral and a followup call after the referral to record the outcome. Communications costs are funded by facility users' fees and verified personally by the district health officer. Quarterly subdistrict meetings are held with the facility in charge of the referral to discuss referrals made during the month and challenges and improvements required. Referral registers have been printed and distributed to all facilities in the two districts. Referral registers are completed by health facility staff, and entries are reported monthly basis. Health workers are trained to refer clients through referrals forms from the community level to the health facility level, and referral cases are reviewed and monitored regularly. This recommendation is closed.*

## **Review of USAID’s Internally Displaced Persons Programs in Pakistan (5-391-10-001-S)**

<b>Date:</b>	June 28, 2010
<b>Implementing Partner:</b>	Agency for Technical Cooperation and Development, American Refugee Committee, Concern, Catholic Relief Services, the Government of Pakistan, International Medical Corps, International Organization for Migration, International Rescue Committee, International Relief and Development, Internews, Merlin, Mercy Corps, Oxfam, Relief International, Save the Children, Samaritan’s Purse, United Nations (U.N.) Settlements Programme, U.N. Children’s Fund, U.N. Office for the Coordination of Humanitarian Affairs, U.N. World Food Programme, U.N. World Health Organization, World Vision.
<b>Audit Period:</b>	October 2008 to December 2009
<b>Funding:</b>	As of December 31, 2009, USAID had obligated \$285.7 million and had disbursed \$203.7 million.

### **Background—Summary of Findings**

Between August 2008 and September 2009, conflict between the Government of Pakistan and militant groups in the North-West Frontier Province (NWFP, recently renamed Khyber Pakhtunkhwa) and the FATA displaced over 400,000 Pakistani households. While many displaced persons took shelter with host families, the remaining families took shelter in official Pakistani Government-run camps. As the internally displaced persons (IDP) crisis escalated in May 2009, USAID and other U.S. Government agencies responded quickly by providing humanitarian assistance to Pakistani IDPs. USAID obligated more than \$285 million in humanitarian assistance for the crisis, of which more than half was for food aid.

Despite the deteriorating security situation in Pakistan, USAID responded immediately to provide rapid assistance through 21 nongovernmental organizations, 5 U.N. organizations, a contractor, and the Government of Pakistan. USAID’s programs consisted of support for the immediate needs of people who were displaced and for people returning to their areas of origin after the conflict in their home areas had diminished.

Although USAID carried out numerous displaced persons programs in Pakistan, OIG found that monitoring and evaluation methods needed improvement. Specifically, USAID’s “alternative monitoring” methods—used to monitor activities in dangerous and insecure areas, such as NWFP and FATA—needed to be strengthened. In addition, USAID had not implemented monitoring controls that were meant to provide reasonable assurance that \$44 million in cash-transfer funds had actually reached 140,000 IDP families as intended.

## Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID/Pakistan develop and award a procurement instrument to provide third-party monitoring and evaluation services to assist mission technical offices in implementing internally displaced persons programs, other mission programs, and in-country Washington-based programs such as those carried out by the Offices of Foreign Disaster Assistance and Food for Peace.

*A Foreign Service National has been designated as a monitoring and evaluation adviser, and USAID has approved a new personal services contractor senior program advisor position for monitoring and evaluation, which it is in the process of advertising. USAID consulted with technical teams and drafted a statement of work for a missionwide monitoring and evaluation contract. A new mission strategy was developed in December 2009 and incorporated as the basis for the report to Congress on the implementation of the Kerry-Lugar-Berman legislation, and it will also serve as the basis for finalizing measures and performance indicators. USAID prepared a results framework to provide the basis for the development of performance management plans. This recommendation is closed.*

2. That USAID/Pakistan require the Government of Pakistan to provide quarterly expenditure reports for internally displaced persons disbursements and a list of payments totaling \$44 million made to internally displaced persons.

*USAID required the Government of Pakistan in its assistance agreement to provide quarterly reports and a list of beneficiaries to the Agency. USAID hand-carried an implementation letter addressing these requirements to the Pakistani Government Economics Affairs Division on June 10, 2010, and sent e-mail reminders. USAID will continue to follow up on these issues until the required reports are provided. This recommendation is closed.*

3. That USAID/Pakistan verify the use of funds from the quarterly expenditure reports and the list of internally displaced persons and confirm that the Government of Pakistan provided funds to at least 140,000 families as a result of this cash-transfer program.

*The use of the funds were verified and confirmed with the receipt of the required reports from the Government of Pakistan. USAID received a completion report in the form of a list of approximately 140,000 beneficiaries for USAID's full contribution and verified this completion report by performing checks on a sample of beneficiaries. USAID has also prepared a statement of work for the audit of the cash-transfer program to be done by the Supreme Audit Institution of Pakistan and has drafted the statement of work for the verification of the funds disbursed to IDPs using the existing blanket purchase agreement mechanism with OIG-approved certified public accounting firms. This recommendation is closed.*

4. That USAID/Pakistan conduct spot checks on and evaluations of the effectiveness of the cash-transfer program.

*USAID hired a consultant to examine the operations and impact of the cash-transfer program and to determine the extent to which the funds had reached the intended beneficiaries. The contractor examined how the Government of Pakistan used the USAID funds it had received, described the beneficiary*

*population, gathered information on how funds affected beneficiaries, profiled individuals who did not benefit from the program, and examined overall public perceptions of the assistance effort. In June 2010, the contractor delivered a report to USAID describing these and other features of the program and evaluating its impact. This recommendation is closed.*

**USAID/Pakistan’s Capacity Building Program for the Federally  
Administered Tribal Areas Development Program  
(5-391-10-005-P)**

**Date:** January 28, 2010

**Implementing Partner:** Development Alternatives, Inc.

**Audit Period:** January 2008 to October 2009

**Funding:** As of October 31, 2009, USAID had obligated approximately \$19.7 million and expended approximately \$15.5 million.

**Background—Summary of Findings**

This audit pointed to several implementation difficulties in USAID’s capacity building programs in the FATA of Pakistan. The FATA region, which is the most economically depressed area of the country, has a population with a literacy rate estimated at only 17 percent, and 66 percent of people live below the national poverty line.

Local Pakistani institutions responsible for overall governance, health care, education, and public works projects lack the capacity to effectively manage services and development resources. In an attempt to remedy this problem, in 2008 USAID awarded a 3-year, \$46 million contract to Development Alternatives, Inc. (DAI), to increase the capacity of these institutions.

OIG’s audit found that, although the program had provided training, taken initial steps to automate FATA institutions, and completed some media activities, little had yet been achieved to build the capacity of FATA governmental institutions and NGOs responsible for providing services. The program had been in place for nearly 2 years of its 3-year planned lifespan, and it had not made significant progress with two of the

program’s main goals: improving institutions’ capacity to govern, and improving the capacity of NGOs to promote good governance.

Some of the problems could be attributed to the fact that the program had gotten off to a slow start. During the first year, the contractor focused its resources on working out best approaches to designing and implementing activities, building up relationships with FATA institutions, and developing work plans. Also, the deteriorating security situation in Peshawar and the November 2008 assassination of the chief of party of another USAID program delayed progress in the FATA capacity building program.

Moreover, although the program had implemented a few activities to address FATA NGO weaknesses, the few FATA-based NGOs that existed lacked the human and financial resources to promote good governance effectively. In most instances, FATA NGOs needed to strengthen their proposal preparation skills, financial management practices, and monitoring and evaluation capabilities before they could start to promote good governance.

Because of a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers such as DAI. As a result, in June 2009 the mission refrained from fully funding a DAI incremental funding request of \$15.3 million and, 4 months later, approved only \$4.7 million in additional funds. In October 2009, the mission asked DAI to consider preparing a 90-day demobilization plan. However, as of mid-November 2009, no final decision had been made as to whether the DAI contract would undertake early demobilization and termination or, if

terminated, what program implementation mechanisms would replace the U.S.-based contractor.

In addition to the difficulties associated with the transition to a new implementation strategy, the audit found that overall capacity building in automation had achieved little success, and most of the computer hardware purchased for the program remained boxed up and unused. Furthermore, monitoring and reporting systems for managing development projects—such as a geographic information system that enables project information to be represented on maps and a database system to document the life cycle of development projects—have not been completed, and they may not be completed until June 2010.

### **Recommendations—Management Decisions**

The audit report made four recommendations:

1. That USAID/Pakistan provide immediate written guidance to the contractor and to the FATA governmental institutions to identify what contractual arrangements may be in force to implement the Capacity Building for the FATA Development Program as the mission transitions to USAID's new implementation strategy.

*USAID received approval to proceed with DAI, as an international contractor, in early December and provided guidance to continue with implementation of certain activities through December 2010. This recommendation is closed.*

2. That USAID/Pakistan develop and issue implementation plans following best practices for (1) the 260 computers (and related equipment) to be assigned to the FATA governmental institutions and for (2) the 140 laptop computers to be transferred to the NWFP to ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.

*The contractor has prepared implementation plans for the computers assigned to FATA government agencies and has received FATA Secretariat and FATA Development Authority approval and acceptance of the implementation plan. USAID also planned to correct protocols and procedures for using the laptops for their intended purpose. This recommendation is closed.*

3. That USAID/Pakistan take immediate steps to confirm the existence of 72 laptop computers. If laptop computers cannot be produced, the mission should issue a bill of collection to the contractor for \$1,400 for each laptop unaccounted for.



*All the computers were accounted for and physically verified by an independent accounting firm. One computer was stolen and an internal inquiry by the FATA Secretariat was conducted. DAI followed up to ensure that the inquiry is completed and appropriate action is taken. This recommendation is closed.*

4. That USAID/Pakistan require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the Federally Administered Tribal Areas Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practices of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat.

*The contractor completed the implementation plan for the Planning Commission Pro-Forma 1 (PC-1) database. A draft implementation plan for the geographic information system was prepared and received approval from the FATA Secretariat. This recommendation is closed.*

## Pakistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Allegations	Source	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries	Department of Justice Civil/Criminal Actions	Results
L07059		Procurement fraud	USAID employee	Closed	PI			Audit recovery
L07058		Conspiracy	USAID employee	Closed	PI			Other administrative sanctions; disqualified from future contract bid (not a debarment)
A06054		Procurement fraud	Contractor	Closed	PI			Administrative action: verbal admonishment
A05080		False claim	USAID employee	Closed	PI		1 criminal referral	DOJ declination
	LA-H0-08-0172-R	Procurement fraud	Private citizen	Closed	PI			
	LA-H0-08-0180-R	Conflict of interest/ethics	Private citizen	Closed	EI			
	LA-H0-09-0064-G	Conflict of interest/ethics	OIG audit	Closed	PI			
	LA-H0-09-0103-R	Conflict of interest/ethics	Private citizen	Closed	PI			
	LA-HO-10-0084-G	Obstruction of justice	Private citizen	Closed	PI			
	LA-HO-10-0180-R	Bribery/gratuity/kickback	Private citizen	Closed	PI			
	LA-IS-09-0042-I	Conspiracy	USAID employee	Open	PI			Bill for collection; Management advisory
	LA-IS-09-0119-I	Bribery/gratuity/kickback	USAID employee	Open	PI	\$101,598,705	1 criminal referral	Removal (4), retired, suspension, contract termination, debarment
	LA-IS-09-0133-I	Computer crimes	Private citizen	Closed	PI			
	LA-IS-09-0146-I	Bribery/gratuity/kickback	USAID employee	Closed	PI			
	LA-IS-09-0147-I	Bribery/gratuity/kickback	USAID employee	Closed	PI			
	LA-IS-09-0148-I	Bribery/gratuity/kickback	USAID employee	Closed	PI			
	LA-IS-10-0055-G	False claim/false statement	USAID employee	Closed	PI			
	LA-IS-10-0081-G	Conflict of interest/ethics	Anonymous	Closed	EI			

## Pakistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Allegations	Source	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries	Department of Justice Civil/Criminal Actions	Results
	LA-IS-10-0088-I	Conflict of interest/ethics/conspiracy	Former contractor	Closed	PI			
	LA-IS-10-0128-I	Bribery/gratuity/kickback	Private citizen	Open	PI			
	LA-IS-10-0129-G	False statement	Anonymous	Closed	EI			
	LA-IS-10-0147-G	Bribery/gratuity/kickback	Private citizen	Closed	EI			
	LA-IS-10-0157-I	Conflict of interest/false claim/false statement	Anonymous	Open	PI			
	LA-IS-10-0199-G	Procurement fraud	Private citizen	Closed	PI			
	LA-IS-10-0254-I	Bribery/gratuity/kickback	Anonymous	Open	PI			
	LA-MA-08-0040-I	False statement	USAID employee	Closed	EI			
	LA-MA-09-0105-G	Conflict of interest/ethics	USAID employee	Closed	EI			
	LA-H0-10-0267-I	Program fraud	Private citizen	Open	PI			
	LA-IS-11-0002-I	Program fraud	Private citizen	Open	PI	\$36,719		Bill of collection; contractor employee termination (2); contractor employee reprimand
	LA-H0-11-0033-G	Program fraud	Private citizen	Closed	EI			Will be worked under LA-H0-11-0028-I
	LA-IS-11-0028-I	Bribery/gratuity/kickback	Private citizen	Closed	EI			Payments to contractor released
	LA-IS-11-0060-G	Program fraud	Private citizen	Closed	PI			Allegation submitted to the Transparency International Hotline
	LA-IS-11-0059-I	False claim	USAID employee	Open	PI			Consideration for debarment; administrative referral
	LA-H0-11-0021-I	Bribery/gratuity/kickback	USAID employee	Closed	EI			Original plan against which the allegation was issued was cancelled
	LA-H0-11-0260-R	Program fraud	Anonymous	Closed	PI			Referral to U.N./Food and Agriculture Organization
	LA-IS-11-0037-I	Bribery/gratuity/kickback	USAID employee	Open	PI			
	LA-IS-11-0041-G	Bribery/gratuity/kickback	Private citizen	Closed	PI			

## Pakistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Allegations	Source	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries	Department of Justice Civil/Criminal Actions	Results
	LA-IS-11-0095-G	Program fraud	Private citizen	Closed	PI			Case will be combined with case LA-IS-10-0088-I
	LA-IS-11-0038-G	Program fraud	Private citizen	Closed	PI			Entered as a hotline complaint
	LA-IS-11-0092-G	Theft	Private citizen	Closed	PI			Allegation was unsubstantiated. Pertinent program is not funded by USAID
	LA-IS-11-0123-G	Program fraud	Private citizen	Closed	PI			Requested proof of corruption activity not provided by complainant
	LA-IS-11-0136-I	Bribery/gratuuity/kickback	Private citizen	Closed	PI			
	LA-IS-11-0154-G	Theft	Anonymous	Closed	PI			
	LA-IS-11-0158-R	Program fraud	Private citizen	Open	PI			
	LA-IS-11-0162-R	Program fraud	Private citizen	Open	PI			
	LA-IS-11-0168-I	Collusive bidding	Anonymous	Open	PI			
	LA-IS-11-0145-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0155-I	Theft	USAID employee	Closed	PI			
	LA-IS-11-0157-I	Theft	Private citizen	Open	PI			Administrative referral to Rural Support Programmes Network; 9 suspensions

## Pakistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Allegations	Source	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries	Department of Justice Civil/Criminal Actions	Results
	LA-IS-11-0186-G	Conflict of interest/ethics	Private citizen	Closed	EI			
	LA-IS-11-0188-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0202-G	Bribery/gratuity/kickback	Private citizen	Closed	EI			
	LA-IS-11-0203-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0206-I	Program fraud	Contractor	Open	PI			
	LA-IS-11-0207-R	Program fraud	Private citizen	Open	EI			Referral to United Nations/World Food Program
	LA-IS-11-0208-I	Program fraud	Private citizen	Open	PI			
	LA-IS-11-0198-I	Bribery/gratuity/kickback	Anonymous	Open	EI			
	LA-IS-11-0178-I	Bribery/gratuity/kickback	Private citizen	Open	PI			
	HQ-HQ-11-0213-G	Program fraud	Contractor	Closed	PI			
	LA-IS-11-0214-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0222-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0226-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0229-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0248-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0265-I	Bribery/gratuity/kickback	Private citizen	Open	PI			
	LA-IS-11-0268-G	Bribery/gratuity/kickback	Private citizen	Closed	EI			

## Pakistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Allegations	Source	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries	Department of Justice Civil/Criminal Actions	Results
	LA-IS-11-0272-G	Theft	Anonymous	Closed	PI			
	LA-IS-11-0310-I	Collusive bidding	USAID employee	Open	EI			
	HQ-HQ-11-0313-G	Conflict of Interest/ethics	Private citizen	Closed	PI			
	LA-IS-11-0320-G	Conflict of Interest/ethics	Private citizen	Closed	PI			
	LA-IS-11-0329-G	Program fraud	Private citizen	Closed	PI			
	LA-IS-11-0333-I	False claim/false statement	Anonymous	Open	EI			
	LA-IS-11-0335-P	Bribery/gratuity/kickback	USAID employee	Open	EI			
	LA-IS-11-0336-G	Bribery/gratuity/kickback	USAID employee	Closed	PI			
	LA-IS-11-0344-I	Bribery/gratuity/kickback	Agency Referral	Open	EI			
	LA-IS-12-0085-I	Program fraud	Anonymous	Open	PI			

**\$101,635,424**

	FY 2012 First Quarter Results	Cumulative Results*
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	Cases opened	2	76
	Cases closed	2	52
	Cases pending	24	24
	Department of Justice referrals	0	2
	Arrests	0	0
	Indictments	0	0
	Convictions	0	0
	Administrative actions**	0	18
	Fraud awareness briefings	1	32
	Attendees at fraud awareness briefings	20	780

\* 2003 through December 2011

\*\* Terminations, suspensions, bills for collection, etc.



# Pakistan

## Investigative Summaries

### Fiscal Years 2005–12

#### **Contract Employees Terminated in USAID Project in the Federally Administered Tribal Areas**

##### **Allegation**

During the fall of 2010 and the spring of 2011, the OIG Hotline and the Pakistan Anti-Fraud Hotline received an allegation of construction fraud relative to a USAID project in the Federally Administered Tribal Areas (FATA). An investigation by USAID OIG determined that three employees of a USAID contractor submitted false documentation on the construction of two flood protection walls. This caused USAID to pay \$33,228 for a wall that was not built to specifications and \$36,719 for a separate 427-meter wall of which only 30 meters were built. In addition to falsifying documentation regarding the actual specification of the walls, all three employees lied about the matter when questioned by OIG.

##### **Status**

The contractor's team leader in charge of the FATA project has since been terminated as well as the contractor site engineer that certified that the 30-meter wall was built to specifications. The head engineer that certified completion to specification of the first wall was disciplined and is still employed on the project. The USAID contracting officer decided that USAID should pay the full amount for the first wall and the contractor should credit USAID \$36,719 for the cost of the 30-meter wall.

#### **Theft or Division of Commodities from Food Program in Sindh Results in 9 Suspensions**

##### **Allegation**

During 2011, the OIG Pakistan Anti-Fraud Hotline received 11 complaints regarding alleged theft or diversion of fortified edible oil which was supposed to have been distributed to students at primary schools in Sindh as part of the Food for Education (FFE) program being implemented by the United Nations' World Food Program (WFP). The purpose of FFE is to provide parents with an incentive to allow their children (especially girls) to attend school by providing one can of fortified cooking oil to each student after they meet monthly attendance requirements. In each case, after coordinating with USAID OIG, the WFP dispatched a monitoring team to the location, reviewed documentation, conducted interviews with the students and community members and then took appropriate action. In four cases, community complaints were generated when the school received less oil than needed due to an increase in the number of students from the time the school had originally registered in the program. School officials either withheld the oil from all students or attempted to share the oil in order to ensure everyone received their share. Six additional complaints were received alleging school officials had stolen cooking oil meant for students, either at the school level or from warehouses maintained by district education officials. WFP field monitoring visits revealed numerous instances of falsified documentation on the part of schools



participating in the program and district warehouses as well as instances in which students who should have received cooking oil but did not.

### **Status**

As a result of these findings, a total of nine individuals were suspended including teachers, headmasters, and warehouse personnel. As a result of follow-up on an allegation received by the OIG Pakistan Anti-Fraud Hotline, WFP field monitoring personnel also discovered that one school participating in the program was actually a private residence. The WFP was able to recover the amount spent on cooking oil for this location from a sub-implementer.

## **Civil Settlement Related to Fraud in USAID-Funded Programs in Afghanistan and Pakistan**

### **Allegation**

In June 2011, the Academy for Educational Development (AED)<sup>1</sup> agreed to settle allegations that the company submitted false claims to USAID in connection with two cooperative agreements under which AED provided foreign assistance in Afghanistan and Pakistan.

### **Status**

Although certain terms of the settlement with the Department of Justice are contingent on future events, AED has already paid \$5,635,000 towards these claims and potentially could pay a total of more than \$15 million over the next three years. In the settlement agreement, the government alleged that AED failed to ensure that its actions under these two cooperative agreements complied with applicable regulations concerning competition in procurements, adherence to contract specifications, and supervision of its subcontractors. The government further alleged that AED failed to inform USAID that it had discovered defects in its internal control systems and that certain AED subcontractors may have been involved in corruption and wrongful activities.

## **Personnel Terminations Related to Corruption in Pakistan Disaster Relief Projects**

### **Allegation**

During spring and summer 2011, the USAID OIG Pakistan Anti-Fraud Hotline received over 200 complaints regarding problems with service delivery or criminal misconduct by employees of the Sindh Rural Support Organization (SRSO). SRSO is a recipient of subcontracts from USAID implementing partners executing flood relief efforts for USAID's mission in Pakistan, Office of Foreign Disaster Assistance, and Office of Food for Peace.

### **Status**

To date, the OIG investigation has revealed significant issues with internal controls for the distribution of cash and relief goods as well as the distribution of food and non-food items to

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<sup>3</sup> AED no longer effectively exists after FHI 360, a newly formed government contractor, took over virtually all of AED's programs in June 2011.

undesignated areas. As a result of the investigation, the NGO has terminated 21 employees to date. Forensic audits of the NGO are now underway.

## **4 Pakistani Nationals Enter Guilty Pleas in Bid-Rigging Case**

### **Allegation**

On July 13, 2011, the Director General of the Pakistan National Accountability Bureau (NAB), Khyber Pakhtunkhwa office, announced that four men had entered voluntary pleas for their roles in a bid-rigging scheme related to the USAID-funded Federally Administered Tribal Areas Livelihood Development Program (FATA-LDP). The goal of the FATA-LDP was to provide social and economic stabilization in FATA.

The \$150 million FATA-LDP cooperative agreement with AED was terminated for cause by USAID in June 2010 after an ongoing investigation by the Office of the Inspector General (OIG) and the Federal Bureau of Investigation revealed indications of widespread fraud.

### **Status**

Under Article 25(A) of NAB's Ordinance (1999), the four men returned approximately \$140,000 as part of their agreement. The recovered funds were returned to USAID. The NAB will ask USAID to use these funds for education and health projects in Khyber Pakhtunkhwa.

This latest development is a continuation of USAID/OIG's investigation of AED. In December 2010, USAID suspended AED from doing additional business with the federal government based on information that was shared by the USAID/OIG.

## **OIG Cohosts Fraud Awareness Conference in Pakistan**

On February 17, 2011, OIG—along with USAID Pakistan, Transparency International—Pakistan, the Auditor General of Pakistan, the Pakistan Public Procurement Regulatory Authority, and the National Accountability Bureau—cosponsored a fraud awareness conference for USAID implementing partners in Islamabad, Pakistan. The event was attended by 118 participants, including representatives of American and Pakistani NGOs, international public organizations, and representatives of both USAID and Pakistani Government ministries. The OIG Pakistan Hotline was formally launched during the conference.

## **USAID Suspends Contractor for Serious Corporate Misconduct**

### **Allegation**

USAID suspended the Academy for Educational Development (AED) from receiving new government awards after initial findings by OIG revealed evidence of serious corporate misconduct, mismanagement, and a lack of internal controls. As reported in our previous semiannual report in March 2011, OIG found evidence of fraud related to various aspects of a \$150 million cooperative agreement, which was subsequently terminated by USAID Pakistan. The OIG investigation later uncovered evidence that certain members of AED's senior headquarters staff became aware of

potentially millions of dollars of disallowable costs because of collusion and overcharging by vendors on the Pakistan project but repeatedly failed to disclose this information to USAID. AED announced the retirement of its chief executive officer and required the departure of four other senior executives to address the inadequate reporting and management deficiencies uncovered by the investigation. In addition to issues related to collusion and overcharging by vendors, the OIG investigation revealed several infrastructure projects managed by AED in Pakistan that failed to meet required USAID specifications. An OIG investigation of another AED project in Afghanistan revealed significant internal control issues resulting in the use of a purchasing process that violated both AED and USAID competitive procurement standards. While some of these issues were identified during a 2008 internal audit conducted by AED, they persisted until the end of the project in late 2010.

### **Status**

As the result of the ongoing investigation, USAID Afghanistan cancelled a planned \$9,900,000 extension of a project with AED in December 2010. Subsequently in June, FHI, a global health and development organization, purchased the programs and assets of AED.

## **USAID Personal Services Contractor Terminated for Misuse of Official Position**

### **Allegation**

USAID OIG received information that staff of a USAID implementing partner in the FATA in Pakistan may have been involved in false claims, fraud, kickback schemes, and mismanagement regarding the awarding and oversight of construction contracts for rehabilitation of homes and buildings following the recent floods. The matter had been brought to the attention of the FATA Secretariat.

### **Status**

Investigations by USAID OIG, with the assistance of Pakistan's National Accountability Bureau (NAB), revealed that a USAID personal services contractor who was serving as the agreement officer's technical representative for a livelihoods program misused his official position for the personal gain of relatives and solicited favors from a prohibited source. The subject took advantage of his official position to obtain employment for two of his relatives, including requesting that a USAID implementing partner create a new position for one of them. The subject was terminated and was subsequently debarred from government contracts based on an OIG referral.

## **USAID Terminates \$150 Million Livelihood Development Program Contract Because of Allegations of Fraud**

### **Allegation**

OIG received allegations of false claims, fraud, kickback schemes, and mismanagement related to an implementing partner of one of its multimillion-dollar cooperative agreements for a livelihood development program in FATA.

**Status**

A joint investigation between USAID OIG and the Pakistan NAB revealed evidence of collusion between vendors and staff of the implementing partner that resulted in overpayment for certain goods. Because of the investigation, USAID/Pakistan terminated a 5-year, \$150 million procurement of household kits for internally displaced persons. To date, the implementing partner has returned \$992,206 to USAID related to this investigation. Additionally, USAID/Pakistan terminated a personal services contractor on which the mission relied to perform important contract management functions for the \$300 million program.



# Afghanistan

## Introduction

**Background.** When the Taliban was forced out of power in 2001, half of Afghanistan's 31 million people were left in absolute poverty. To rebuild the country and combat terrorism, USAID is working to create economic growth, effective and representative governance, and the human capital base needed to eliminate the conditions that breed extremism.

USAID obligations in Afghanistan for FY 2002 through the first quarter of FY 2012 totaled more than \$13.2 billion, and OIG has spent approximately \$15.5 million in supplemental funding to oversee USAID's activities in Afghanistan through the first quarter of FY 2012.

### Results—Fiscal Year 2003 Through Fiscal Year 2012

Activities	Afghanistan
Performance audits/reviews	49
Recommendations made	248
Recommendations closed	189
Recommendations open	59
Financial audits conducted	45
Questioned costs	\$148.7 million
Sustained costs	\$3.9 million
Investigations opened	169
Investigations closed	108
Investigations pending	61
Referrals for prosecution	38
Indictments	13
Convictions	11
Arrests	13
Administrative actions	119
Recoveries and savings	\$163 million
Fraud awareness briefings	96
Attendees at briefings	1,879

**Performance Audits.** OIG’s performance audit work in Afghanistan has shown that security conditions have been a primary concern and have hindered program implementation. Of the 49 audits conducted to date, 49 percent cited security conditions as a concern. Our performance audit recommendations have also identified inadequacies in the following areas:

- Contract oversight or activities management (62 percent)
- Data integrity or quality (27 percent)
- Contractor performance (13 percent)

In several instances, USAID/Afghanistan’s agricultural programs have demonstrated positive results. In its first year of implementation, the Agriculture, Rural Investment and Enterprise Strengthening Program met or exceeded most of its goals. In addition, USAID/Afghanistan’s Alternative Livelihoods Program in the Eastern Region achieved significant results for the majority of its performance indicators.

See page 77 for a chart listing each of our 49 Afghanistan performance audits’ findings and recommendations. This chart shows the status of all of our 248 recommendations. Narrative summaries of the audits, arranged by fiscal year, are provided beginning on page 109.

**Financial Audits.** By federal law (31 U.S.C. Chapter 75), nonfederal entities that expend \$500,000 or more in federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A-133. OMB’s requirement applies to audits of states, local governments, and nonprofit organizations based in the United States. Audits conducted pursuant to Circular A-133 are sometimes referred to as “nonfederal audits.”

USAID requires nonprofit organizations not based in the United States who expend \$300,000 or more in federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in the USAID-produced *Guidelines for Financial Audits Contracted by Foreign Recipients*. These audits are generally called recipient-contracted audits.

Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its for-profit implementing partners. Financial audits conducted under this program accomplish many goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States but which have overseas affiliates. USAID contracts to have ACAs conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis. OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist the services of the Defense Contract Audit Agency (DCAA) to conduct incurred audits on for-profit entities that are not based in the United States. However, DCAA

performs all financial audits on for-profit entities based in the United States.<sup>4</sup>

Financial audits performed on USAID's implementing partners in Afghanistan are reflected in the chart beginning on page 97. Questioned costs are costs determined by an audit to be not allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). USAID and the implementer work to resolve questioned costs, but when resolutions are unattainable the costs become sustained (by the audit), and USAID seeks reimbursement from the implementer.

**Investigations.** OIG's investigative activities seek to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of federal laws, rules, and regulations.

In a number of criminal and civil case matters, OIG has worked closely with local authorities. When our investigators uncover probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its interest in pursuing the matter. Investigative findings on administrative matters are referred to Agency management for action. OIG investigators also conduct fraud awareness briefings to alert participants (employees, contractors, and grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. See page 181 for data on investigative case work and fraud prevention briefings and page 189 for summaries of investigations.

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<sup>4</sup> DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.





## Afghanistan Performance Audit Findings and Recommendations

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response	
FY 2003	1	<b>Risk Assessment of Major Activities Managed by USAID/Afghanistan (5-306-03-001-S)</b>	11-Mar-03	The report identified the need for concurrent financial audits of the infrastructure rehabilitation project and a performance audit of the economic governance project.	0	0	None	
FY 2004	2	<b>Review of the Road Project Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (RIG Memo 04-002)</b>	13-Nov-03	As of November 1, 2003, 222 km of the 389 km Kabul-Kandahar Highway had been paved. USAID believed it was on schedule to lay 321 km of new asphalt and repair 68 km of existing road by December 31, 2003. However, the mission needed to have the contractor prepare an implementation plan as required by the contract.	1	1	None	
	3	<b>Second Review of the Road Project Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (RIG Memo 04-003)</b>	31-Mar-04	The contractor had paved or patched 389 km of the Kabul-Kandahar Highway. USAID believed it was on schedule to lay 321 km of new asphalt and repair 68 km of existing road by December 31, 2003. However, the mission needed to have the contract prepare an implementation plan as required by the contract.	0	0	None	
	4	<b>Risk Assessment of Major Activities Managed by USAID/Afghanistan (5-306-04-002-S)</b>	15-Apr-04	The report noted (1) progress was made in addressing vulnerabilities identified in the mission's Federal Managers' Financial Management Integrity Act report and (2) certain high-profile, high-risk projects needed to be audited in fiscal year (FY) 2005.	0	0	None	
	5	<b>Audit of USAID/Afghanistan's Cashiering Operations (5-306-04-001-F)</b>	11-May-04	The audit concluded that the mission had managed its cashiering operations efficiently, economically, and in accordance with Agency policies and procedures except that certain internal controls needed to be improved.	3	3	None	
	6	<b>Audit of the Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program at USAID/Afghanistan (5-306-04-005-P)</b>	17-Aug-04	The mission had not approved a work plan for the contractor, and quarterly work plans with expected accomplishments and milestones (required by the contract) had not been done. Without such work plans, OIG could not assess whether the program was on schedule to achieve planned outputs. As a result, the report disclaimed an opinion but acknowledged that some progress had been made.	1	1	None	
	7	<b>Audit of the Kabul to Kandahar Highway Reconstruction Activities Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services Program (5-306-04-006-P)</b>	21-Sep-04	The mission (1) generally checked the timeliness of reconstruction activities but did not fully monitor the quality of the road reconstruction, in part because of security restrictions, and (2) did not verify whether the contractor's performance conformed to its contract.	2	2	None	
FY 2005	8	<b>Audit of USAID/Afghanistan's School and Clinic Reconstruction Program (5-306-05-003-P)</b>	14-Mar-05	The audit concluded that the school and clinic reconstruction program was not on schedule for a number of reasons, including insufficient oversight and monitoring. Specifically, no more than 328 (62 percent) of the 533 buildings planned to be completed by December 2004 were completed or on schedule to be completed.	3	3	None	
	9	<b>Audit of USAID/Afghanistan's Primary Education Program (5-306-05-005-P)</b>	14-Apr-05	The audit found that (1) the Primary Education Program activities had achieved key planned outputs in all but three activities and that (2) the mission had not done contractor performance evaluations. Specifically, textbook distribution was delayed, grade equivalents for accelerated learning students were also delayed, and the female student enrollment target was not achieved. These three activities did not achieve their planned outputs for a number of reasons, including a delay in receiving funding for the program.	4	4	None	
FY 2006	10	<b>Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (9-306-06-004-P)</b>	21-Dec-05	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. 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. The report included three recommendations to ensure that the remaining balance of approximately \$14.4 million in unspent earmarked funds is used for its intended purpose.	3	3	None	
	11	<b>Audit of USAID/Afghanistan's Cashiering Operations (5-306-06-001-P)</b>	10-Jan-06	The cashiers properly accounted for their imprest funds.	0	0	None	

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
12	<b>Audit of USAID/Afghanistan's Rebuilding Agricultural Markets Program (5-306-06-002-P)</b>	28-Mar-06	The audit found that five of six activities were on schedule to achieve planned outputs. The sixth activity's planned output—rehabilitating 555 km of farm-to-market roads—was not achieved for a number of reasons, including poor security and poor subcontractor performance. Additionally, USAID/Afghanistan did not properly administer its Rebuilding Agricultural Markets Program (RAMP) contract.	3	3	None	
13	<b>Audit of USAID/Afghanistan's Reconstruction of the Kandahar–Herat Highway Under the Rehabilitation of Economic Facilities and Services (REFS) Program (5-306-06-005-P)</b>	18-May-06	Kandahar–Herat Highway reconstruction activities were on schedule to achieve planned outputs, except for 24 km of roadwork. The remaining 24 km were not completed by December 31, 2005, because of funding shortages, which the mission could have addressed sooner.	1	1	None	
14	<b>Audit of USAID/Afghanistan's Rural Expansion of Afghanistan's Community-Based Healthcare (REACH) Program (5-306-06-007-P)</b>	16-Aug-06	Nineteen of twenty selected activities achieved planned outputs. REACH awarded \$56.2 million to 28 grantees who were providing basic health care in 14 provinces. The program distributed \$4.7 million of essential drugs and trained 568 midwives and completed a number of activities to help improve capacity in the Afghan Public Health Ministry.	0	0	None	
15	<b>Audit of USAID/Afghanistan's School and Health Clinic Reconstruction Activities (5-306-06-008-P)</b>	18-Aug-06	The mission and its implementing partners were on schedule to complete 705 of 776 school and clinics to be constructed or refurbished under the Schools and Clinics Construction and Refurbishment Program, and 511 of the 705 buildings had been turned over to the Afghan Government. However, completion has taken longer than anticipated because the mission did not take timely action to resolve issues on program implementation.	2	2	None	
FY 2007 16	<b>Audit of USAID/Afghanistan's Alternative Livelihoods Program–Eastern Region (5-306-07-002-P)</b>	13-Feb-07	In fiscal year 2006, the Alternative Livelihoods Program–Eastern Region (ALP/E) achieved significant results for 13 of 15 performance indicators used by USAID/Afghanistan to measure whether the program was achieving planned results. Achievements that supported ALP/E's objective of accelerating licit economic growth and business activity included 27,534 ha devoted to licit agricultural production and 98,154 farmers trained in agricultural practices. Achievements that supported ALP/E's objective of providing an immediate alternative source of income to those who depend on the opium economy included 19,698 Afghans paid \$4,209,670 through cash-for-work projects. Two performance indicators could not be evaluated because sufficient information on actual accomplishments was not available or the related program activities were not fully implemented.	4	4	None	
17	<b>Audit of Critical Power Sector Activities Under USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (5-306-07-004-P)</b>	21-May-07	Under the REFS Program, one critical activity had been achieved, whereas two similar activities were significantly behind schedule because of security problems. Although the activity that was achieved delivered 16.5 megawatts of reliable hydroelectric power, delays in the other two activities have delayed the delivery of 35 MW of reliable hydroelectric power to about 2 million Afghan people in southern Afghanistan.	0	0	None	
18	<b>Audit of USAID/Afghanistan's Urban Water and Sanitation Program (5-306-07-006-P)</b>	7-Jun-07	Planned contract deliverables were generally being achieved under USAID/Afghanistan's Urban Water and Sanitation Project. However, long-term sustainability of the overall project was questionable and contract administration problems were found between the mission and Camp Dresser McKee, Inc., the contractor hired to implement the project.	5	5	None	
19	<b>Audit of Selected Follow-on Activities under USAID/Afghanistan's Economic Program (5-306-07-009-P)</b>	31-Aug-07	Selected follow-on activities, agreed to between USAID and the Government of Afghanistan 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.	2	2	None	
FY 2008 20	<b>Audit of USAID/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program (5-306-08-001-P)</b>	22-Jan-08	In its first year, the Agriculture, Rural Investment and Enterprise Strengthening (ARIES) program achieved or exceeded most of its goals and helped make a significant impact in expanding Afghanistan's licit rural economy by creating 62,674 jobs. Despite its achievements, ARIES could have been more successful with implementing small and medium enterprise loan segment activities and investment and finance cooperatives. Additionally, the mission could improve the implementation and management of the ARIES program in four areas.	6	6	None	

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21	<b>Audit of USAID/Afghanistan's Alternative Development Program--Southern Region (5-306-08-003-P)</b>	17-Mar-08	USAID/Afghanistan's Alternative Development Program/South (ADP/S) achieved some, but not all, of its planned results. However, despite its progress, opium production in the southern provinces continued to rise, diminishing the intended overall impact of the ADP/S program. This increase resulted from a rise in insurgency activities preventing the mission from delivering alternative livelihoods to key poppy-growing areas, the ineffectiveness and corruption in the eradication process, and the lack of rule of law and criminal penalties for growing poppies.	1	1	None	
22	<b>Audit of USAID/Afghanistan's Small and Medium Enterprise Development Activity (5-306-08-006-P)</b>	23-Jun-08	It could not be determined whether 11 of the 18 performance indicators used to measure the progress of the project met planned results during the first year of implementation. The audit determined that the contractor's performance data for these 11 performance indicators were not reliable and therefore not useful in managing for results or credible for reporting. For the remaining seven indicators, the audit determined that the project partially met five indicators' regional performance targets, exceeded one indicator's nationwide target, and partially met one indicator's nationwide target.	4	4	None	
23	<b>Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program (5-306-08-009-P)</b>	8-Aug-08	Chemonics International, Inc., 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 more than 1,700 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 planned.	15	15	None	
24	<b>Audit of USAID/Afghanistan's Capacity Development Program (5-306-08-012-P)</b>	30-Sep-08	There was a lack of evidence to demonstrate that this program was on track to achieve planned results. The program lacked key deliverables necessary for effective implementation, monitoring, and reporting of program activities and results. Detailed work plans outlining what the contractor planned to accomplish and results monitoring plans with performance indicators, targets, and periodic reporting against these targets were not in place. Given these shortcomings and considering that the contract with BearingPoint, Inc. (contractor), was signed only in February 2007, the audit found that it was too early to assess the overall impact of this program.	4	4	None	
FY 2009 25	<b>Audit of USAID/Afghanistan's Higher Education Project (5-306-09-002-P)</b>	4-Dec-08	The project partially achieved planned results toward (1) transforming the instruction of teaching and learning in faculties and departments of education and (2) institutionalizing structures and systems to support and sustain high quality instruction and professionalism. The implementer measured its progress against nine objectives for which it met its target objectives for three, partially met the targets for four, and did not meet the targets for two. From an impact standpoint, faculty members who participated in the project's different activities were exposed to new and more effective teaching methodologies being used in their classes. Also, faculty members advanced their English-language skills through the English courses provided and had greater opportunities to access training and educational materials not available in their local language.	4	4	None	
26	<b>Audit of USAID/Afghanistan's Local Governance and Community Development Project in Southern and Eastern Regions of Afghanistan (5-306-09-003-P)</b>	11-May-09	The audit disclosed that the project suffered from severe delays. In addition, the project was hindered by a need for improvements in the contractor's monitoring and evaluation system, refinements in the mission's operational plan indicators, and timely approval of annual contractor work plans. Furthermore, the contractor did not properly establish performance targets for the 14 key indicators in its performance monitoring plan for fiscal year 2008.	12	12	None	

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27	<b>Audit of USAID/Afghanistan's Land Titling and Economic Restructuring in Afghanistan Project (5-306-09-004-P)</b>	8-Jun-09	The audit found that, as a whole, the project achieved positive results under both components. Under the first component, the project laid a foundation that could benefit the Government of Afghanistan's land administration system. Under the second component, in the first 3 years the project provided technical assistance toward liquidating 23 state-owned enterprises, 3 state-owned banks, and 1 state-owned corporation. As a result, state-owned assets valued at \$10.6 million have been auctioned to successful bidders. The audit did find that the liquidation process took longer than expected and that the State-Owned Enterprise Department lacked the capacity to manage the liquidation process. Furthermore, USAID investment in privatization was not always successful, more collaboration could strengthen the project's impact, and there were problems in reductions of scope.	4	4	None	
FY 2010 28	<b>Audit of USAID/Afghanistan's Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program (5-306-10-002-P)</b>	10-Nov-09	The audit concluded that, because of construction delays, USAID had not provided increased reliable power to these two areas within the planned timeframes. For the Kabul power plant, the delays were caused by an initial inability to obtain adequate title to land for the power plant, an ambiguous statement of work resulting in poor planning and implementation, subcontractor performance problems, lack of onsite quality assurance, and problems in clearing equipment and material through customs. For the Kajakai Dam project, deteriorating security in southern Afghanistan and inconsistent contractor performance contributed to the delay.	8	8	None	
29	<b>Audit of USAID/Afghanistan's Afghan Civilian Assistance Program (5-306-10-004-P)</b>	15-Dec-09	USAID/Afghanistan's Afghan Civilian Assistance Program (the program) is not on target to achieve its main goal of assisting families and communities that have suffered losses as a result of military operations against insurgents and the Taliban. The International Organization for Migration (the implementer) reported that as of September 1, 2008, close to the midpoint of the program, only 803 of the more than 6,000 eligible families under the program--about 13 percent--were receiving assistance. Under an October 2008 recovery plan to get the program back on track, the implementer hoped to assist 5,102 of the estimated 6,378 eligible families by April 30, 2009. However, as of January 22, 2009, the implementer reported that it had actually serviced about 40 percent of the intended families, or 2,025 of the estimated target number of 5,102.	7	7	None	
30	<b>USAID/Afghanistan's Building Education Support Systems for Teachers Project (5-306-10-006-P)</b>	29-Jan-10	OIG's audit of a \$94 million, 5-year contract with Creative Associates International, Inc. to implement USAID's Building Education Support Systems for Teachers (BESST) project found that the project is making progress in helping to improve the quality of education in Afghanistan but has not achieved its two main goals: improving teaching through teacher training and institutionalizing ministry structures and systems that support high-quality teaching. The audit found that much of the training of teachers had been completed and that district teacher training teams had been established to help conduct training in all 11 provinces. However, notwithstanding these accomplishments, the audit found that, almost 4 years into the 5-year project, some significant tasks and activities included in the project's contract and work plan had not been completed.	4	4	None	

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31	<b>Audit of USAID/Afghanistan's Human Resources and Logistical Support Program (5-306-10-007-P)</b>	31-Mar-10	OIG found that the program had made progress in capacity building within selected Afghan ministries, identified defective USAID-built structures, and provided engineering oversight for mission construction projects. The audit also pointed to several areas that were problematic. The most critical issue is to identify the many defective structures that likely remain among the estimated 1,474 mission-built structures. The total number of defective structures will be determined when the remainder of the preliminary assessments and any subsequent detailed seismic evaluations are completed. The mission anticipates that the contractor will complete 200 seismic evaluations by the end of the contract. In addition, significant defects in five buildings reported in a prior Office of Inspector General audit report (Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program," Audit Report No. 5-306-08-009-P, August 8, 2008) have yet to be corrected.	12	12	None	
32	<b>Audit of USAID/Afghanistan's Afghanistan Vouchers for Increased Productive Agriculture (AVIPA) Program (5-306-10-008-P)</b>	20-Apr-10	The AVIPA program was designed to provide wheat seed and fertilizer to drought-affected subsistence farmers to help them increase wheat production. The audit found that the program had contributed to the country's increase in wheat production; however, the extent of the program's role in this increase was unclear, since the audit determined some reported results were not reliable. In addition, the program's stabilization activities in the country's southern region were not being implemented as widely as planned. The audit identified several other problems: In addition to the lack of reliable data to measure program results, the program suffered from insufficient oversight. The implementer, International Relief and Development (IRD) could not retain staff, in part because of death threats, and project staff members were overburdened by requests for information and briefings from non-USAID Government officials. In some cases, materials did not reach beneficiaries. Moreover, the audit noted that up to \$50 million in unspent program funds could be reprogrammed for other activities.	3	3	None	
33	<b>Audit of USAID/Afghanistan's Oversight of Private Security Contractors (5-306-10-009-P)</b>	21-May-10	OIG's audit, which reviewed private security contractor (PSC) operations between October 2006 and June 2009, examined the reporting of serious security incidents, whether USAID implementing partners had subcontracted with responsible firms, the costs of these services, and the oversight of those costs. We found that detailed statutory oversight requirements intended to cover both non-DOD and DOD PSCs in Afghanistan had not been implemented by USAID, because the Chief of Mission had not issued Mission-wide instructions in accordance with DOD implementing regulation. As a result, USAID PSCs did not report certain serious security incidents—in particular persons killed or injured as a result of their conduct—that they otherwise would have been required to report had Mission-wide instructions implementing the statutory requirements been issued. The Mission-wide instructions would have also incorporated statutorily-mandated procedures to ensure PSCs in Afghanistan are qualified and responsible. The report found such procedures were not in place.	8	8	None	
34	<b>Review of School and Health Clinic Buildings Completed Under the Schools and Clinics Construction and Refurbishment Program (5-306-10-002-O)</b>	24-Jun-10	In October 2004, OIG audited USAID's the school and health clinic reconstruction activities. The audit found that the program was behind schedule, and it recommended that the mission develop a new implementation plan. This review was prompted by OIG's inability to visit program sites due to the precarious security situation where many schools and clinics are located. OIG contracted with KPMG Afghanistan, whose staff could travel more easily within Afghanistan. To conduct site visits, OIG provided KPMG a statistical sample of 50 buildings from the 776 schools and clinics completed across Afghanistan under the program. KPMG noted numerous deficiencies with regard to the physical condition of the school and health clinic buildings. These deficiencies included physical problems, poor hardware, lack of electrical supply, and deficient water service.	2	2	None	

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	35	<b>Audit of USAID/Afghanistan's Alternative Development Program Expansion, South West (5-306-10-011-P)</b>	29-Jul-10	OIG's audit found that a 32-percent decrease in poppy production between 2008 and 2009 is attributable to strong antipoppy messages from provincial governors, increased interdiction activities, an overproduction of poppy in prior years that suppressed market prices, and provision of alternative economic opportunities in targeted districts within each province. However, continued reductions in poppy cultivation may not be sustainable because no follow-on alternative development program has been approved beyond March 2011, and a critical southern province is not included in the current program. Second, the program has experienced delays in implementation partially because of security issues. Also, a new, Embassy-led annual program review process, the restructuring of the regional commands, and the mission's plan to implement regional platforms present future challenges that could hamper program implementation if not properly managed.	3	3	None	
	36	<b>Review of Security Costs Charged to USAID Projects in Afghanistan (5-306-10-002-S)</b>	29-Sep-10	This review of Edinburgh International's security costs charged to the following three USAID-funded projects in Afghanistan implemented by Development Alternatives, Inc.: Afghanistan Small and Medium Enterprises Development; Incentives Driving Economic Alternatives for the North, East, and West; Local Governance and Community Development (LGCD). The review found no indication that Edinburgh International had misused USAID funds to pay the Taliban or others in exchange for protection. However, there were indications that Afghan subcontractors working on the LGCD project had paid insurgents for protection in remote and insecure areas of Afghanistan. The payments were allegedly made as part of a security arrangement with local communities that very likely included the Taliban or groups that support them. The auditors found also indications of pervasive fraud in DAI's LGCD office in Jalalabad and indications of endemic corruption in Nangarhar Province, where Jalalabad is located. The auditors referred these findings to OIG/Investigations for further investigation.	4	4	None	
	37	<b>Audit of USAID/Afghanistan's Partnership for Advancing Community-Based Education in Afghanistan (PACE-A) (5-306-11-001-P)</b>	28-Oct-10	OIG Audit found that PACE-A has not been fully achieving all of its core objectives. One area in which program efforts have fallen short has been teacher training, which is the primary means of ensuring that PACE-A supported students receive a quality education. A review of the training records maintained by each of the four PACE-A partners revealed that, in most cases, teachers had not received the minimum basic training required to teach their classes. Specifically, the results of this review disclosed that, of the total primary education teachers supported (3,052), only 3 percent had received the full range of basic training—consisting of five workshops—that all newly hired teachers were expected to receive, and 21 percent had received none of the requisite training.	4	4	None	None
FY 2011	38	<b>Audit of USAID/Afghanistan's Support to the American University of Afghanistan (5-306-11-002-P)</b>	5-Nov-10	The university is behind schedule in reforming its undergraduate program. While the university has developed additional courses and a bachelor's degree with concentrations in business, information technology, and social sciences, it has not developed the curricula for three individual bachelor's degrees, as required under the agreement. The audit found other problems as well. The university was not in compliance with agreement terms—as it had not submitted its required Year 2 budget, Year 2 work plan, and performance management plan—and as a result, the mission was withholding incremental funding. The university's Professional Development Institute will not meet its financial contribution goal. The university may not meet its goal of increasing enrollment of women to 30 percent. The undergraduate preparatory program was not preparing students adequately to become undergraduates. University contracting was deficient and did not consistently document its competitive bidding process. Items funded by USAID were not marked as having been provided by the U.S. taxpayer. Finally, environmental procedures were not followed construction of the new campus or in renovations of existing facilities.	18	16	(14) Review the university's procurement system, as required by the agreement.	The mission's Office of Acquisition and Assistance has prepared a plan regarding the steps it will take in performing the review of the university's procurement system. This recommendation remains open.
						(15) Review procurement files before approving construction subcontracts in order to verify that adequate competition existed during the bidding process.	The mission has proposed a process by which all subcontractor construction procurements will be reviewed and approved by the mission prior to the commencement of work. This plan includes the review of any procurements that are funded in whole or part with USAID funds totaling more than \$100,000 as well as all cost-reimbursement contracts. This recommendation remains open.	

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39	<b>Review of USAID/Afghanistan's Ministerial Assessment Process (F-306-11-001-S)</b>	6-Nov-10	<p>The U.S. Government expects to deliver 50 percent of its development aid to Afghanistan through the Government of the Islamic Republic of Afghanistan's (GIROA's) core budget by the end of calendar year 2011. With this expectation, USAID/Afghanistan is conducting a series of pre-award assessments of GIROA ministries to see whether the ministries can responsibly manage U.S. Government resources. In a pre-award assessment (sometimes called a pre-award survey or pre-award audit) the assessment team normally conducts inquiries, observations, and tests to see whether the assessed entity has the requisite procedures, internal controls, experienced personnel, and other resources needed to responsibly manage U.S. Government funds. The review focused on assessments already performed by USAID/Afghanistan as well as on draft scopes of work for future assessments. Most of the assessments completed to date were based mainly on reviews of written procedures, inquiries of ministry officials, and inspection of a limited number of transactions. More testing of controls would have provided greater assurance of detecting vulnerabilities that could result in waste or misuse of U.S. Government funds. The draft scopes of work for future assessments can be strengthened by telling reviewers what program(s) ministries may be asked to manage, assessing the control environment, expanding coverage of controls over human resources and fixed assets, and providing more detailed guidance to reviewers on how to assess compliance with applicable laws.</p>	3	3	None	
40	<b>Audit of USAID/Afghanistan's Agriculture, Water, and Technology Transfer Program (F-306-11-001-P)</b>	13-Feb-11	<p>The objective of this audit was to determine whether the program was achieving its main goals, which dealt with irrigation water management, agricultural technology transfer, and institution building. Two and one-half years into the 3-year program, New Mexico State University (NMSU) had achieved a number of successes in introducing new agricultural and water technologies, and many farmers were participating in on-farm demonstrations of these technologies. Auditors found some evidence of demand for these new technologies—laser land leveling being the clearest example—but adoption of the technologies lies in the future. However, the audit noted several implementation issues. Moreover, financial records for the program showed that about 61 percent of spending was in Afghanistan, while the other 39 percent was in the United States. Officials connected with the program raised concerns that the high proportion of expenditures in the United States left fewer resources available for activities in Afghanistan and raised other questions about the financial management of the program. To address these issues, the OIG contracted with an audit firm to conduct financial audits of NMSU and its partner universities in the United States. OIG will issue a separate report on the results of that audit.</p>	6	6	None	
41	<b>Review of Cash Disbursement Practices Employed by Selected USAID/Afghanistan Contractors and Grantees (F-306-11-002-S)</b>	7-Mar-11	<p>The review found that the cash disbursement practices of the ten selected USAID/Afghanistan implementing partners reasonably ensured that their cash expenditures were reasonable, allocable, and allowable. The OIG recommended that the mission disseminate the best practices described in this report to its implementing partners to minimize cash transactions. The mission agreed with the recommendation and issued a letter making all implementing partners aware of the best practices described in this report. The mission stated that by implementing these best practices, partners would be adequately safeguarding USAID-funded resources.</p>	1	1	None	



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42	<b>Review of USAID/Afghanistan's Bank Supervision Assistance Activities and the Kabul Bank Crisis (F-306-11-003-S)</b>	16-Mar-11	OIG/Afghanistan conducted this review to determine what opportunities USAID and contractor staff had to learn of fraudulent activities at Kabul Bank through USAID's Economic Growth and Governance Initiative and its predecessor, the Economic Growth and Private Sector Strengthening Activity. Among other audit findings, BearingPoint and Deloitte advisers who were embedded at DAB encountered fraud indications at Kabul Bank on a number of occasions over a span of 2 years before depositors' run on Kabul Bank in early September 2010. However, they did not aggressively follow up on indications of serious problems at Kabul Bank.	4	3	(3) Implement a written policy clarifying the responsibilities of USAID contractors and grantees to report on indications of fraud in host-country institutions or other matters that could reasonably be expected to be of foreign policy interest to the U.S. Government.	The mission accepted the recommendation to work on providing a written policy clarifying the responsibilities of USAID contractors and grantees to report on indications of fraud in host-country institutions as well as on other matters that could reasonably be expected to be of foreign policy interest to the U.S. Government as it applies to Afghanistan. This effort is being led by the Regional Legal Advisor and other concerned offices in USAID. This recommendation remains open.
43	<b>Audit of USAID/Afghanistan's Construction of Health and Education Facilities Program (F-306-11-002-P)</b>	27-Mar-11	The objective of the audit was to determine whether USAID/Afghanistan's program was achieving its main goals of strengthening the Government of Afghanistan's ability to provide health services to its citizens and train competent teachers by constructing provincial hospitals, midwife training centers, and provincial teacher training colleges. While the mission has realized some successes—for example, in strengthening the capacity of local construction companies and adhering to the international building code—the program was not on schedule to achieve its main goals.	15	13	(3) Review the eligibility of the cost of the prayer buildings and prayer rooms included in the provincial teacher training centers and recover any costs found to be unallowable.  (9) USAID/Afghanistan, after preparing an analysis of the Government of Afghanistan's ability to fund maintenance for the structures turned over under the program, (1) determine the need for a separate operation and maintenance program and (2) revise as appropriate the 611 (e) certification previously prepared for the Construction of Health and Education Facilities Program.	The mission determined that \$258,982 in costs were ineligible and required IOM to redesign the women's prayer room into two rooms including a visiting room and living room which is similar to the layout at the men's dormitory. The mission has also halted construction on the mosque structures and advised that it plans to document the recovery of USAID funds disbursed to date for this structure. The recommendation remains open.  The Mission agrees with this recommendation. The CHEF projects require IOM to provide the relevant ministries with an Operations and Maintenance (O&M) Plan for each CHEF project prior to completing and handing over the facility. The O&M Plan for each CHEF project includes: 1) O&M Manuals for equipment installed. 2) O&M training of ministry representatives for equipment installed. 3) An Annual O&M Budget, detailing the cost for the operation and maintenance of the facility. The Mission will obtain the Annual O&M Budgets for all CHEF projects from IOM, submit them to the relevant ministries, and verify that the ministries have adequate funding to operate and maintain the facilities. The Mission will then revise the 611(e) if necessary. This recommendation remains open.

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44	Review of USAID/Afghanistan's Portion of the Embassy Air Program (F-306-11-004-S)	9-Jun-2011	The review found that USAID/Afghanistan's portion of the Embassy Air program was providing safe and reliable air service in support of provincial reconstruction teams and other U.S. development assistance programs in Afghanistan. The review also found areas in which the Embassy Air program could be improved: no-show passengers increased costs to the government. The environmental requirements in the contract with Aircraft Charter Solutions Inc. are ambiguous. Unapproved international travel led to questioned costs. The contractor did not meet branding and marking requirements. The contractor did not provide required terminal-to-aircraft transportation. The contractor did not report required performance information to USAID.	8	3	<p>(1) USAID/Afghanistan implement a nominal charge for no-show passengers.</p> <p>(2) USAID/Afghanistan clarify the contract's environmental requirements and obtain evidence that the contractor is complying with them.</p> <p>(3) USAID/Afghanistan determine the allowability of and recover, as appropriate, unsupported questioned costs of \$525,467 representing international travel (including premium-class travel of \$31,902) by contractor officials that was not approved by USAID as required.</p> <p>(4) USAID/Afghanistan verify that Aircraft Charter Solutions Inc. has implemented a branding and marking plan.</p> <p>(8) USAID/Afghanistan clarify its performance standards to Aircraft Charter Solutions Inc. so that realistic expectations and proper reporting and accountability can be obtained.</p>	<p>USAID/Afghanistan did not agree with Recommendation 1 for two reasons: The mission estimated that up to 50 percent of no-shows were due to security restrictions and were largely beyond the control of individual travelers. The mission believed that imposing nominal charges on no-show passengers would not be feasible, although the mission did not identify any specific feasibility issues. The mission also disagreed with our estimate of funds that could be put to better use by reducing the number of no-show passengers. The mission noted that there may be no significant difference in cost between flying a plane that is fully loaded with passengers and one with a number of empty seats. A management decision for Recommendation 1 can be recorded when USAID/Afghanistan and our office agree on a firm plan of action, with time frames, for implementing the recommendation. This recommendation remains open.</p> <p>USAID/Afghanistan agreed with the recommendation. The contracting officer, in collaboration with the USAID/Afghanistan's environmental officer, will review the contract's environmental provisions to determine how they should be revised. In addition, the mission will ensure compliance with these provisions through enhanced monitoring and evaluation of the contractor's compliance with any environmental requirements set forth in the revised contract provisions or modification. This recommendation remains open.</p> <p>A management decision can be recorded when the allowability of the \$525,467 in questioned costs is determined by the contracting officer. This recommendation remains open.</p> <p>The mission agreed and instructed the contractor to submit a branding and marking plan for approval. In addition, The mission provided the contractor with appropriate branding and marking materials to initiate compliance with the requirements. Aircraft Charter Solutions Inc. installed tags on various sections of the aircrafts and on furniture and equipment inside the terminal buildings. This recommendation remains open.</p> <p>USAID/Afghanistan did not agree with the recommendation. USAID/Afghanistan and the contractor both understood the performance standard "93% of missions completed as scheduled" to mean that the contractor was obligated to maintain a 93 percent on-time mission capability rate, excluding factors outside the contractor's control such as weather, security, and other extenuating circumstances. However, this understanding is contradicted by the wording of the performance standard itself (Appendix III). USAID/Afghanistan did require the contractor to develop and submit a performance management plan for approval. The mission planned to monitor compliance with the performance standards and indicators. A management decision can be recorded for Recommendation 8 when we and the mission agree on a firm plan of action, with time frames, for implementing the recommendation. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
45	<p align="center"><b>Audit of USAID/Afghanistan's Support to The Electoral Process (STEP) and Support for Increased Electoral Participation in Afghanistan (IEP) Programs (F-306-11-003-P)</b></p>	19-Jun-11	<p>To help strengthen Afghanistan's electoral system, USAID/Afghanistan has provided assistance mainly through the Support to the Electoral Process (STEP) Program implemented under a contract with the International Foundation for Electoral Systems (IFES), the Increased Electoral Participation in Afghanistan (IEP) Program implemented through a cooperative agreement with the Consortium for Election and Political Process Strengthening (CEPPS). As of December 31, 2010, USAID had obligated approximately \$124.5 million and expended approximately \$98.9 million. Despite accomplishments in the areas of civic and voter education and support in the operation of local electoral institutions, no persuasive evidence exists that these short-term results have produced increased citizen awareness of the electoral process or a stronger democratic political party system.</p>	9	1	<p>(1) USAID/Afghanistan undertake a technical evaluation of the effectiveness of voter education and civic education efforts it has supported.</p> <p>(2) USAID/Afghanistan prepare a more formal project design document for the follow-on program after the Support to the Electoral Process Program ends in June 2011 that explicitly identifies the critical assumptions underlying the program design.</p> <p>(3) USAID/Afghanistan develop detailed plans for addressing the legal reforms, financial and constitutional arrangements for elections, and voter registration issues discussed in this finding in conjunction with the Government of Afghanistan, other local stakeholders, and international donors.</p> <p>(4) USAID/Afghanistan complete all required contractor performance reviews under the Support to the Electoral Process contract in accordance with Federal Acquisitions Regulation and Agency for International Development Acquisitions Regulation requirements.</p>	<p>USAID/Afghanistan undertake a technical evaluation of the effectiveness of voter education and civic education efforts it has supported, the mission agreed and is working with implementing partners to develop a national survey that includes questions that focus on voter awareness and participation. These questions will gauge the effectiveness of USAID-supported voter and civic education. In addition to the survey instrument, the mission will conduct an election program evaluation in June and July 2011. This evaluation will examine the effectiveness of USAID's support. This recommendation remains open.</p> <p>The mission will prepare a more formal project design document for the follow-on program after the Support to the Electoral Process Program ends in June 2011 that explicitly identifies the critical assumptions underlying the program design, the mission concurred. It will incorporate national perspectives into the design of its future elections support programs by engaging with the GiRoA and IEC counterparts. The mission also plans to invite independent technical elections specialists to conduct strategic reviews of the elections portfolio. This recommendation remains open.</p> <p>The mission develop detailed plans for addressing the legal reforms, financial and constitutional arrangements for elections, and voter registration issues discussed in this finding in conjunction with the Government of Afghanistan, other local stakeholders, and international donors, the mission concurred. The mission has outlined a series of activities undertaken and others planned to address the legal reform, financial and constitutional arrangements for elections and voter registration. However, the mission did not provide a date to complete plans for addressing needed legal reforms, financial and constitutional arrangements for elections, and voter registration issues discussed in the finding because discussions on these issues are on-going. While we agree that activities are on-going plans need to be established to address the larger-team issues discussed in the report. This recommendation remains open.</p> <p>The mission complete all required contractor performance reviews under the Support to the Electoral Process contract, the mission agreed. The COTR and Alternate COTR will complete the contractor performance reviews in collaboration with the Contracting Officer using the Contractor Performance Assessment Reporting system. The contractor performance reviews for the first two project years will be completed by August 31, 2011. Year 3 reviews will be conducted after the end of the period of performance on September 30, 2011. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
45						<p>(5) USAID/Afghanistan prepare an implementation plan for use of the \$1.4 million rural radio supplemental funding consistent with the goals of the program, or reprogram these funds for other mission programs.</p>	<p>The mission prepare an implementation plan for use of the \$1.4 million rural radio supplemental funding consistent with the goals of the program, or reprogram these funds for other mission programs, the mission concurred. The mission has directed the International Republican Institute to prepare an implementation plan for using the funds, and IRI has submitted a concept paper that envisions using the funds—originally for pre-election voter education programs—for radio programs focusing on the performance of elected officials and discussion of political and social issues. This recommendation remains open.</p>
						<p>(7) USAID/Afghanistan establish procedures and criteria for determining the reasonableness of security costs charged by implementing partners.</p>	<p>The mission establish procedures and criteria for determining reasonableness of security costs, the mission asked the Office of Inspector General to reconsider its recommendation. The mission interpreted the recommendation as requiring a market price survey that could take 12 to 15 months, and it wondered whether this would be worthwhile in light of recent developments affecting private security firms in Afghanistan. The mission noted that, once the Afghan Public Protection Force assumes responsibility for the security of USAID's partners, the partners will be expected to pay fixed prices for security services. Therefore, the mission considered that our recommendation was overtaken by events. This recommendation remains open.</p>
						<p>(8) USAID/Afghanistan's follow-on program require members of the Consortium for Election and Political Process Strengthening to consolidate functions and facilities to the extent possible to reduce expenses.</p>	<p>The mission follow-on program requires members of the Consortium for Election and Political Process Strengthening to consolidate functions and facilities to the extent possible to reduce expenses, the mission partially concurred. The mission noted that a consolidation of functions and facilities of implementing partners' at the national level may prove less advisable. This recommendation remains open.</p>
						<p>(9) USAID/Afghanistan require the International Republican Institute, as the lead partner in the Consortium for Elections and Political Process Strengthening, to submit a Consortium marking and branding plan and verify that the plan has been implemented.</p>	<p>On April 18, 2011, the mission requested CEPPS to deliver a collective branding and marking plan. All CEPPS partners have individually submitted branding and marking plans as of May 4, 2011. The mission will review the plans and verify implementation through field visits during the remainder of the activity. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
46	Review of USAID/Afghanistan's Afghan Civilian Assistance Program (F-306-11-005-S)	31-Aug-11	<p>The Afghan Civilian Assistance Program was designed to assist Afghan civilian families and communities that have suffered losses as a result of military operations against insurgents and the Taliban. The program is implemented through a \$76 million, 4½-year cooperative agreement with the International Organization for Migration (IOM) that runs from April 1, 2007, to September 30, 2011. As of March 2, 2011, according to USAID/Afghanistan records, \$54 million had been obligated and \$52 million spent under the program. Beneficiaries under the program are generally given in-kind or noncash assistance, often in the form of kits that include food, household items, school supplies, or tools and equipment for agriculture or small business activities. IOM did not adopt any specific criteria or guidelines for commodity management under the program. In the absence of specific criteria, we used Generally Accepted Commodity Accountability Principles<sup>2</sup> and the USAID Commodities Reference Guide (<a href="http://www.usaid.gov/our_work/humanitarian_assistance/ffp/crg">www.usaid.gov/our_work/humanitarian_assistance/ffp/crg</a>) as criteria. Our inspections of four warehouses—three IOM warehouses and one warehouse belonging to Uranus Trading and Logistics—disclosed rat and mouse infestation, poor storage practices, expired commodities, and a lack of inventory records. Further, the inspections led us to question the purchase of additional kits, space for which was lacking in IOM's warehouse.</p>	7	1	<p>(2) USAID/Afghanistan determine the allowability of and recover as appropriate from the International Organization for Migration the cost of stored food that is no longer fit for human consumption, which we estimate at up to \$2,660,924.</p> <p>(3) USAID/Afghanistan determine the allowability of and recover as appropriate from the International Organization for Migration the \$740,331 cost of Purchase Order 12, which was not needed to carry out program operations.</p> <p>(4) USAID/Afghanistan determine the allowability of and recover, as appropriate, the \$1,360,800 in shelter assistance grants in Helmand Province that could not be verified.</p> <p>(5) USAID/Afghanistan arrange for a financial audit of the Afghan Civilian Assistance Program to help ensure that the costs charged to USAID are reasonable, allowable, and allocable.</p> <p>(6) USAID/Afghanistan determine the allowability of and recover, as appropriate, \$180,000 that was reportedly embezzled from the program.</p> <p>(7) USAID/Afghanistan determine the allowability of and recover, as appropriate, the \$3,437,000 that the International Organization for Migration spent to buy used vehicles without USAID approval.</p>	<p>The mission intends to issue a bill of collection to recoup the costs. Its review of the list revealed items purchased from a prohibited source. The mission intends to perform a financial audit of the program, which will include a review of items purchased from prohibited sources. This recommendation remains open until a bill to collect the money has been issued. This recommendation is open.</p> <p>According to the mission, the program was distributing assistance kits aggressively from February through July 2011 and, without the additional inventory on hand; the program might not have been able to assist all beneficiaries without interruption. The mission indicated that all the kits from Uranus Trading and Logistics Company ultimately were distributed to beneficiaries. We disagree with the mission's analysis. As detailed in the audit finding, IOM had inventory records supporting 4,821 kits stored at Uranus Trading and Logistics Company, and that total did not include kits stored in IOM warehouses, for which no inventory records were available. This order added 3,000 kits, which Uranus Trading and Logistics Company had to have stored. We recommended that the agreement officer determine the allowability of the kits purchased under Purchase Order 12. This recommendation remains open and is pending a management decision.</p> <p>The mission asked IOM for a summary of the assessment done by SHAL, a nongovernmental organization contracted by IOM, which will identify which individuals not entitled to assistance received commodities or cash. The mission will then review the report, and the agreement officer will make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate and is pending a management decision. This recommendation remains open.</p> <p>A management decision was reached upon report issuance. The mission's target completion date for the audit is January 31, 2012. On the basis of this information, a management decision has been reached. This recommendation remains open.</p> <p>The mission partially agreed with the recommendation. The mission agreed to recover the funds that were reportedly embezzled, but did not agree with the amount embezzled. The mission is currently reviewing documentation provided by IOM to determine the actual amount of funds misappropriated and will make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate. This recommendation remains open and is pending a management decision.</p> <p>The agreement officer is reviewing the documentation provided by IOM to determine the allowability of this cost. USAID/Afghanistan will initiate recovery action, as appropriate, through the issuance of a bill for collection. This recommendation remains open and is pending a management decision.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
47	Audit of USAID/Afghanistan's On-Budget Funding Assistance to the Ministry of Public Health in Support of the Partnership Contracts for Health Services Program (F-306-11-004-P)	29-Sep-11	<p>The Partnership Contracts for Health Services (PCH) program has contributed to the achievement of the Ministry of Public Health's health objectives. The majority of PCH health facilities visited were exceeding their patient capacity, demonstrating that communities, especially women and their children, were increasingly seeking out health services. PCH-funded physicians interviewed attributed accomplishments in the reduction of maternal and infant mortality in part to the PCH program's community outreach program. The health education provided by the outreach program in remote areas has been emphasizing the benefits of delivering babies at health facilities rather than at home, and as a result, physicians stated that the majority of women in their service areas are now delivering at the health clinics and hospitals. Auditors found that the process for completing the required Health Management Information System reports was inherently prone to errors because information was compiled manually on paper. Health facilities located in remote rural areas had no electricity and no computers. Workers at most (73 percent) of the health facilities visited did not double-check their figures before submitting the reports to MoPH. Having a second person double-check data is considered a best practice to minimize errors. According to USAID officials, these error and submission rates were comparable to world benchmarks in developing countries, where data quality is usually below 50 percent. Despite the limitations in data, HMIS provides useful data for monitoring trends and identifying gaps and improvements in service. Because MoPH's Afghanistan Mortality Survey 2010 is expected to provide current demographic health information, we did not make a recommendation regarding the lack of current population statistics, demographic information, or other national data to measure outcomes from the ministry's health-care activities.</p>	13	0	<p>(1) USAID/Afghanistan, in collaboration with the Ministry of Public Health, develop and implement a plan that improves the nongovernmental organization contractors' supervision, monitoring, and problem solving at their health facilities; and verifies the successful implementation of a reliable quality assurance mechanism by the nongovernmental organization contractors, including the establishment of quality assurance committees at each of the health facilities.</p> <p>(2) USAID/Afghanistan assist the Ministry of Public Health in establishing and implementing a plan to ensure that nongovernmental organization contractors are verifying that the requirement of second-person verification is being effectively implemented at health facilities.</p> <p>(3) USAID/Afghanistan, in collaboration with the Ministry of Public Health, develop a plan to (1) identify a pool of qualified civil service employees who would benefit from capacity building training in order to sustain the ministry's capacity for managing the PCH program and (2) provide the training.</p> <p>(4) USAID/Afghanistan work with the Ministry of Public Health and the Ministry of Finance to streamline the payment process to accelerate payments to nongovernmental organization contractors and health workers.</p> <p>(5) USAID/Afghanistan work with the Ministry of Public Health and the Ministry of Finance to (1) implement written policies and procedures that clearly define the roles, responsibilities, and approval authorities for the payment process and (2) provide further training on the advance/liquidation mode of payment process.</p> <p>(6) USAID/Afghanistan work with the Ministry of Public Health and the Ministry of Finance to implement procedures limiting the frequency of changes made to the payment process and providing sufficient notification and clear instructions to nongovernmental organization contractors on any changes.</p> <p>(7) USAID/Afghanistan review its internal administrative procedures, such as the processing of implementation letters, to ensure the smooth and timely flow of the payment process for on-budget assistance agreements.</p>	<p>USAID plans to work with Ministry of Public Health to develop and implement a plan that identifies which elements the nongovernmental organization contractors should address. USAID/Afghanistan will also work with the Ministry of Public Health to ensure that nongovernmental organizations' roles and responsibilities related to quality assurance are clearly defined and articulated and are in line with established guidance on quality assurance. The mission will also work to ensure that the Ministry of Public Health's monitoring plans cover quality assurance issues. The mission intends to implement this plan by February 29, 2012. This recommendation is open.</p> <p>The mission will work with the Ministry of Public Health to develop a plan to reinforce verification guidelines and to incorporate monitoring of implementation of the verification guidelines into the Ministry of Public Health's facility monitoring plan. The mission anticipates completion and implementation of the plan by March 31, 2012. Based on the proposed action, the mission has reached a management decision. This recommendation remains open.</p> <p>The mission anticipates working with the Ministry of Public Health to develop a plan to identify and assign civil-service counterparts for training by PCH long-term external advisers. The mission anticipates completing action on this recommendation by March 31, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.</p> <p>Specifically, the mission will conduct an assessment of Ministry of Public Health systems, policies, and procedures and use the results of the assessment to streamline the payment process. The mission intends to complete this task by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.</p> <p>The mission agreed with these 2 points and anticipates completing this work by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.</p> <p>The mission will draw on the results of the assessment in working with Ministry of Public Health and Ministry of Finance to implement policies and procedures regarding changes in the payment process and issuance of instructions on such changes. The mission intends to complete these tasks by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.</p> <p>The mission anticipates completing this review and modifying its procedures by February 29, 2012. Based on these proposed actions, a management decision has been reached. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
47						(8) USAID/Afghanistan issue a mission order to provide an organizational framework with clearly defined roles and responsibilities of all mission offices responsible for managing on-budget assistance activities.	The mission intends to complete this task by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.
						(9) USAID/Afghanistan provide a formal designation letter similar to an officer's technical representative designation letter to staff members monitoring implementation of on-budget assistance agreements.	The mission will include a provision related to the designation of activity or project managers for government-to-government assistance mechanisms in its revised mission order referred to in Recommendation 8. The mission anticipates completing this mission order by February 29, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.
						(10) USAID/Afghanistan work with the Ministry of Public Health to prepare a performance management plan for the Partnership Contracts for Health Services program.	Work is under way, with a target completion date of March 31, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.
						(11) USAID/Afghanistan provide the Ministry of Public Health with clearly written definitions of Afghan Info performance indicators.	The mission will provide the Ministry of Public Health with a list of Afghan Info performance indicators and their associated definitions by February 29, 2012. A management decision has been reached based on this proposed action. This recommendation remains open.
						(12) USAID/Afghanistan implement procedures to review and verify the accuracy of data entered into Afghan Info and provide timely feedback to users.	The mission plans to provide PCH consultants with orientation to and training in utilizing the Afghan Info database, with a target completion date of February 29, 2012. However, while the training will address the needs of PCH, the mission's actions do not address the verification aspect of the recommendation. This recommendation remains open.
						(13) USAID/Afghanistan, in collaboration with the Ministry of Public Health, implement a plan to confirm and document accurate GPS coordinates for the ministry's health facilities.	The mission plans to request implementing partner assistance in updating GPS coordinates for health facilities and in developing a plan for completion of all GPS requirements. The plan is to be completed by February 29, 2012, and the updated GPS coordinates by March 31, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
48	Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for Southern Region (F-306-12-001-P)	13-Nov-11	<p>Program implementation was delayed. Program implementation was delayed by a lack of timeliness standards for evaluating Chemonics' performance, adverse security conditions, a lack of formal work plans, inadequate USAID/Office of Transition Initiative oversight, staffing difficulties, and poor-quality subcontractors. Program budget was not properly managed. Afghanistan Stabilization Initiative-Southern Region did not properly manage its budget and began running out of funds in the first quarter of fiscal year (FY) 2011. This happened because ASI-SR accepted more grants than it could fund and because of unanticipated operating expenses. Projects were not perceived as Afghan Government efforts. According to an independent third-party monitoring and evaluation report of ASI-SR activities, for 9 of 15 projects reviewed, intended beneficiaries did not believe that the Afghan Government was involved in the projects. Rather, beneficiaries credited "foreigners" or provincial reconstruction teams (PRTs) with implementing the projects. Afghan Government branding of project sites could help create stronger perceptions of Afghan Government involvement in ASI-SR projects. Mission lacked a transition plan. Although USAID/OTI, USAID/Afghanistan, Chemonics, and Afghan Government officials all agree that some key districts are ready for longer-term development projects, no comprehensive transition plans are in place.</p>	18	3	<p>(1) USAID/Office of Transition Initiatives direct Chemonics to develop detailed work plans for program implementation based on the district stability framework and determine the adequacy of these plans.</p> <p>(2) USAID/Office of Transition Initiatives develop objective standards for evaluating Chemonics' performance, including standards for timeliness of program implementation.</p> <p>(4) USAID/Office of Transition Initiatives prepare activity manager designation letters describing field program manager responsibilities.</p> <p>(5) USAID/Office of Transition Initiatives provide training for its field program managers on their roles and responsibilities and program implementation practices and procedures.</p> <p>(6) USAID/Office of Transition Initiatives instruct Chemonics to adjust its program grants portfolio to include more small-scale activities.</p>	<p>USAID/OTI concurred with the recommendation that it direct Chemonics to develop work plans based on the district stability framework. Further, USAID/OTI stated that 1) district strategies have been written and approved by OTI for all active program districts (or sub-districts in the case of Kandahar City); 2) all USAID/OTI staff and all but the newest Chemonics staff have received District Stability Framework training; and 3) the District Stability Framework is in use in all active USAID/OTI programming districts and Kandahar City. Nevertheless, USAID/OTI did not provide documentation of its direction to Chemonics concerning the development of work plans. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.</p> <p>USAID/OTI agreed to develop objective measures for evaluating Chemonics' performance. USAID/OTI also noted that 1) Chemonics received general guidance to design grants that can be implemented in the three to five month range; 2) USAID/OTI and Chemonics now hold weekly (or bi-weekly in Districts with less grant volume) implementation meetings to review performance of each ongoing grant; and at the end of grant implementation, Chemonics is required to write a final evaluation report. While these may be elements that provide information concerning grants, they do not necessarily constitute objective measures to evaluate Chemonics performance (e.g. the timeliness of Chemonics processing of grant applications and approvals, its timely completion of grants, the achievement of grant objectives, the impact of the grant program, and etcetera). USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.</p> <p>USAID/OTI agreed that it should prepare activity manager designation letters describing field program managers' responsibilities. USAID/OTI noted that it has drafted designation letters for its field program managers and is coordinating final approval of those letters. USAID/OTI has reached management decision on this recommendation. This recommendation remains open.</p> <p>USAID/OTI agreed that it should provide its field program managers training on their roles and responsibilities and on program implementation practices. USAID/OTI stated that it has provided training in these areas to its staff, although it did not provide documentation evidencing such training. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.</p> <p>USAID/OTI agreed to instruct Chemonics to balance its program grants portfolio with more small-scale activities. USAID/OTI also indicated that, among other things, it had provided guidance that the program should refrain from implementing large infrastructure projects with complex subcontracts and that the program is now only approving grants of \$100,000 or less. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.</p>



No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
48						(7) USAID/OTI formally delegate contracting officer's technical representative responsibilities for directing Chemonics to the USAID/Office of Transition Initiatives Regional Representative in Kandahar.	USAID/OTI agreed to delegate COTR responsibilities for directing Chemonics to the USAID/OTI regional representative in Kandahar. According to USAID/OTI, the designation memo is awaiting final approval. This recommendation remains open.
						(9) USAID/OTI recover as appropriate the \$12,200 spent for supporting other agencies under the ASI-SR program.	USAID/OTI and the mission are currently reviewing the recommendation to recover as appropriate the \$12,200 spent for supporting other agencies under the program. Consequently, a management decision is pending. This recommendation remains open.
						(10) USAID/OTI develop and implement benchmarks to assess Chemonics' progress in closing out completed grants.	USAID/OTI concurred with the recommendation to develop and implement benchmarks to assess Chemonics' progress in closing out completed grants. USAID/OTI indicated that it uses its Activity Database to monitor grants through the activity cycle from concept to closure. It further stated that it meets with Chemonics on a weekly and bi-weekly basis to confirm project implementation progress and that an official modification is required if a grant is nearing its end date. Nevertheless, these mechanisms do not constitute benchmarks for assessing Chemonics' progress in closing out grants. Based on its agreement with the recommendation, USAID/OTI has made a management decision. This recommendation remains open.
						(11) USAID/OTI issue written guidance to Chemonics describing time frames for project closeout.	USAID/OTI concurred with this recommendation. While USAID/OTI did provide a document titled New Guidance on Activity Modification and Grant Closure Procedures, there is no indication that this document was issued to Chemonics. A management decision had been reached on this recommendation. This recommendation remains open.
						(12) USAID/OTI direct Chemonics to assist Afghan Government officials in developing a local branding plan.	USAID/OTI concurred with the recommendation and agreed to direct Chemonics to assist Afghan Government officials in developing a local branding plan. USAID/OTI intends to issue specific guidance to its field program managers to work with Chemonics and government officials on district branding plans. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
48						(13) USAID/Afghanistan 1) identify the districts in which it intends to implement post-transition development projects, 2) develop transition plans for districts in which it plans to implement future projects, and 3) closeout plans for districts where it will not implement new projects.	USAID/Afghanistan did not agree to dedicate resources to develop district transition plans because it has not determined whether it is necessary to implement near- and longer-term development programs in each of the districts in which OTI projects have been implemented. Accordingly, we modified our recommendation to focus on that determination and subsequent necessary action. USAID/Afghanistan has not reached a management decision on this recommendation. This recommendation remains open.
						(14) USAID/OTI determine the allowability of \$6.5 million in security costs and recover costs determined to be unallowable.	USAID/OTI agreed to review and determine the allowability of the questioned security costs, in coordination with the contracting officer. A management decision may be recorded when the contracting officer determines whether the questioned costs are allowable. This recommendation remains open.
						(15) USAID/Office of Transition Initiatives instruct Chemonics to develop compensating controls for use in conjunction with cash payments.	USAID/OTI concurred with the recommendation and agreed to direct Chemonics to develop compensating controls for use in conjunction with cash payments. However, although USAID/OTI indicated that it had directed Chemonics to develop such controls, it did not provide a copy of that direction with its management comments. USAID/OTI has reached a management on this recommendation. This recommendation remains open.
						(17) USAID/OTI develop procedures for validating reported results on a periodic basis.	In response to the recommendation that it develop procedures for periodically validating reported results, USAID/OTI indicated that it is verifying "actuals" as part of its review prior to closing out activities. USAID/OTI also stated that it works with Chemonics to implement a robust monitoring plan to track activity progress and verify completion. In addition, USAID/OTI distributed to OTI and Chemonics staff a revised final evaluation template for activities, the instructions for which indicate that it should include an explanation describing how output information was verified. While USAID/OTI's comments indicate agreement with this recommendation, they do not specifically identify the procedures that it will apply to validate results reported by Chemonics. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.
						(18) USAID/OTI complete all required contractor performance reviews under the Afghanistan Stabilization Initiative for the Southern Region contract.	USAID/OTI concurred with the recommendation to complete all required contractor performance reviews under the contract. It also stated that the first annual contractor performance review had been completed and that it expected to finalize the second annual contractor performance report. USAID/OTI has reached a management decision on this recommendation. This recommendation remains open.

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
49	<p align="center"><b>Review of Responses to Internal Audit Findings on the Local Governance and Community Development Project (F-306-12-001-S)</b></p>	26-Dec-11	<p>USAID OIG conducted this review to assess selected problems raised in the internal audit report and to determine whether Development Alternatives Inc. (DAI) incurred questionable costs on the project. Launched in October 2006, the Local Governance and Community Development Project sought to promote stability by (1) helping the Government of the Islamic Republic of Afghanistan extend its reach into unstable areas and engage populations most likely to support insurgents, (2) creating an environment that encourages local communities to take an active role in their own stability and development, and (3) addressing the underlying causes of instability and support for the insurgency through integrated community development activities. The project focused on Kandahar City and Maywand District. DAI implemented the project through a \$349 million contract that ended on August 31, 2011. According to mission records dated October 2011, USAID/Afghanistan obligated \$328 million and disbursed \$317 million for project activities. The final report identified \$6.6 million in questioned costs.</p>	7	0	<p>(1) USAID/Afghanistan determine the allowability of \$748,683 in questioned costs related to vehicles leased without proper approvals and without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.</p> <p>(2) USAID/Afghanistan determine the allowability of \$352,500 in questioned costs associated with lease payments for the Local Governance and Community Development Project office space and guesthouses disclosed in the Development Alternatives Inc. internal audit report, and recover from Development Alternatives Inc. any amounts determined to be unallowable.</p> <p>(3) USAID/Afghanistan determine the allowability of \$2,019,036 in questioned costs related to services procured without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.</p> <p>(4) Determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$3,424,400 in inadequately supported fuel purchases for the Local Governance and Community Development Project.</p>	<p>The mission agreed to determine the allowability of \$748,683 in questioned costs related to vehicles leased without proper approvals and without full and open competition and recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open and a management decision is pending.</p> <p>The mission agreed to determine the allowability of \$352,500 in questioned costs associated with lease payments for the Local Governance and Community Development Project office space and guesthouses disclosed in the DAI internal audit report and to recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. This recommendation remains open and a management decision is pending.</p> <p>The mission agreed to determine the allowability of \$2,019,036 in questioned costs related to services procured without full and open competition and recover from DAI the amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open and a management decision is pending.</p> <p>The mission agreed with this recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.</p>

No.	Report Title	Report Date	Summary of Findings	Total # of Recommendations	Total # Closed	Open Recommendations	USAID Response
						(5) USAID/Afghanistan determine whether Development Alternatives Inc. billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, determine the allowability of these costs and recover from Development Alternatives Inc. any amounts determined to be unallowable.	The mission agreed with Recommendation 5 (Recommendation 6 in our draft report) to determine whether DAI billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, determine the allowability of these costs and recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open and a management decision is pending.
49						(6) USAID/Afghanistan determine the allowability of \$4,782 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project and recover from Development Alternatives Inc. any amounts determined to be unallowable.	The mission disagreed with the amount and description provided in Recommendation 6 (Recommendation 7 in our draft report), which recommended that the mission determine the allowability of \$4,257,722 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project, and recover from DAI any amounts determined to be unallowable. The amount of unapproved seating upgrades included in the draft recommendation was the total amount of international travel costs, because DAI was unable to provide OIG with a complete, comprehensive listing of those upgrades. Subsequently, DAI provided an analysis of its upgraded international travel costs to USAID/Afghanistan, which determined that the actual unallowable travel cost related to seating upgrades was \$4,781.87 of which \$4,483.87 had already been recovered. The balance of \$298.00 is to be credited against future Invoices submitted by DAI. In response to the mission's comments, we modified the questioned cost of unapproved seating upgrades in the recommendation. This recommendation remains open.
						(7) USAID/Afghanistan contract for a financial audit of Development Alternatives Inc.'s Local Governance and Community Development Project to determine whether all the costs charged to USAID were reasonable, allowable, and allocable.	The mission agreed with Recommendation 7 (Recommendation 4 in our draft report) to contract for a financial audit of DAI's Local Governance and Community Development Project to determine whether all the costs charged to USAID were reasonable, allowable, and allocable. In addition, USAID/Afghanistan indicated that it would include a closeout financial audit of the Local Governance and Community Development Project in its fiscal year 2012 audit management plan. The target date for final action is May 31, 2012. Based on the mission's comments, a management decision has been reached but the recommendation remains open.
	<b>Performance Audits Issued</b>	<b>49</b>				<b>Total Recommendations</b>	<b>248</b>
						<b>Total Closed Recommendations</b>	<b>189</b>



## Afghanistan Financial Audit Findings

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
1	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from September 30, 2002, to June 30, 2003	5-306-04-001-N	23-Jan-2004	1,227,901	29,449	3,882	
2	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2003, to September 30, 2003	5-306-04-003-N	26-Mar-2004	666,841	114,020	13,001	
3	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2003, to December 31, 2003	5-306-04-004-N	17-May-2004	863,610	115,136	44,738	
4	Application of Agreed-Upon Procedures on Costs Incurred in the United States by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from September 30 2002, to June 30, 2003	5-306-04-002-D	17-May-2004	23,096,297	92,983	90,022	
5	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2004, to March 31, 2004	5-306-04-005-N	9-Jul-2004	1,578,442	137,596	9,127	
6	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2004, to June 30, 2004	5-306-04-006-N	23-Aug-2004	2,039,979	14,112	0	
7	Audit of Costs Incurred in the United States by The <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2003, to September 30, 2003	5-306-04-003-D	16-Sep-2004	40,486,450	109,186	91,678	
8	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2004, to September 30, 2004	5-306-05-002-N	9-Dec-2004	1,539,697	3,056	779	
9	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2004, to December 31, 2004	5-306-05-006-N	14-Mar-2005	1,525,711			

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
10	Audit of Costs Incurred in the United States by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2003, to June 30, 2004	5-306-05-006-D	19-Apr-2005	185,440,813	1,049,881	98,146	OIG questioned \$785,716 in costs that were claimed by Louis Berger but were ineligible on the basis of its contract with USAID. These costs related to direct labor, subcontractors, equipment and furniture, and consultants. Additionally, OIG questioned \$264,165 in costs that could not be supported by documentation.
11	Financial Audit of Local Costs Incurred by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2005, to March 31, 2005, including Contract Line Item No. 2 costs for the period from April 1, 2004, to June 30, 2004	5-306-05-008-N	30-Jun-2005	1,606,343			
12	Financial Audit of Local Costs Incurred by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2005 to June 30, 2005, including Contract Line Item No. 2 costs for the period from July 1, 2004 to June 30, 2005	5-306-05-009-N	29-Aug-2005	2,944,192			
13	Financial Audit of Local Costs Incurred by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2005, to September 30, 2005	5-306-06-002-N	8-Dec-2005	2,114,250			
14	Audit of Costs Incurred in the United States by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2004, to March 31, 2005	5-306-06-002-D	19-Dec-2005	125,286,559	348,122	3,399	
15	Financial Audit of Local Costs Incurred by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2005, to December 31, 2005	5-306-06-004-N	21-Mar-2006	2,144,967			
16	Financial Audit of Local Costs Incurred by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2006 to March 31, 2006	5-306-06-005-N	28-Jun-2006	3,097,361			
17	Audit of Costs Incurred in the United States by the <b>Louis Berger Group, Inc.</b> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2005, to December 31, 2005	5-306-06-003-D	2-Aug-2006	181,086,841	528,239	36,248	

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
18	Audit of Treatment of Specified Costs Incurred by <a href="#">Camp, Dresser &amp; McKee Constructors, Inc.</a> Under the Afghanistan Water and Sanitation Program, USAID/Afghanistan Contract No. 306-C-00-04-00568-00 for the Period from September 30, 2004, to February 25, 2006	5-306-06-004-D	10-Aug-2006	261,390	221,509	31,509	
19	Financial Audit of Local Costs incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2006, to June 30, 2006	5-306-07-001-N	16-Oct-2006	2,121,214			
20	Financial Audit of Local Costs incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-00500-00, for the Period from July 1, 2006, to September 30, 2006	5-306-07-004-N	11-Dec-2006	1,740,855			
21	Financial Audit of Local Costs incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2006, to December 31, 2006	5-306-07-006-N	18-Apr-2007	1,488,612			
22	Audit of Costs Incurred in the United States by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2006, to June 30, 2006	5-306-07-002-D	25-May-2007	53,702,753	581,418	124,108	
23	Financial Audit of Local Costs incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2007, to March 31, 2007	5-306-07-008-N	27-Jun-2007	1,299,053			
24	Financial Audit of Local Costs incurred by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2007, to June 30, 2007	5-306-08-001-N	27-Nov-2007	1,262,209			
25	Closeout Audit of the Project Titled "Business Advisory Services to Small and Medium-Sized Enterprises (SMEs) in Afghanistan," USAID/Afghanistan Cooperative Agreement No. 306-A-00-04-00570-00, Managed by <a href="#">Acap Management Limited</a> , for the Period from September 30, 2004, to March 29, 2007	5-306-08-019-R	25-Apr-2008	925,459	695,374	695,374	



No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
26	Audit of Costs Incurred in the United States by the <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2006, to December 31, 2006	5-306-08-003-D	16-May-2008	39,274,703	846,872	51,014	
27	Audit of Costs Incurred in the United States by The <a href="#">Louis Berger Group, Inc.</a> to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2007, to May 31, 2008; Audit Report No. 5-306-09-001-D	5-306-09-001-D	18-Jun-2009	18,579,476	3,142,521	264,651	Questioned costs related to overcharges on the contract, charges incurred that were inconsistent with the dates of activity in the contract, charges not approved by USAID, and a lack of purchase orders and invoices.
28	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc./Black &amp; Veatch Special Projects Joint Venture</a> to Implement the Afghanistan Infrastructure Rehabilitation Program, USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from August 25, 2006, to September 30, 2007	5-306-09-005-N	25-Jun-2009	2,268,126	267,556	254,526	
29	Audit of Costs Incurred and Billed by <a href="#">BearingPoint, Inc.</a> , USAID/Afghanistan Contract No. 306-C-00-03-00001-00, for the Period from November 1, 2002 to December 15, 2005	5-306-09-002-D	19-Aug-2009	95,817,000	95,817,000		DCAA reported that it had continuous problems in obtaining the required information from BearingPoint in order to render an opinion on the reliability of BearingPoint's accounting systems. BearingPoint had made several manual adjustments that could not be explained and billed USAID for costs that did not reconcile with its computerized systems.
30	Financial Audit of the Program "Regenerating Murad Khane, Restoring, Refurbishing and Revitalizing the Old City," USAID/Afghanistan Cooperative Agreement No. 306-A-00-09-00503-00, Managed by the <a href="#">Turquoise Mountain Trust</a> , for the Period from November 2, 2008 to December 31, 2008	5-306-09-021-R	29-Sep-2009	421,310	17,781	17,781	
31	Financial Audit of Local Costs Incurred by the <a href="#">Louis Berger Group, Inc./Black &amp; Veatch Special Projects Joint Venture</a> to Implement the Afghanistan Infrastructure Rehabilitation Program, USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from October 1, 2007 to September 30, 2008	5-306-10-002-N	25-Feb-2010	5,594,190	46,912	4,200	

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
32	Financial Audit of the Afghanistan First Loss Reserve Fund, USAID/Afghanistan Cooperative Agreement No. 306-A-00-05-00512-00, Managed by <a href="#">the Deutsche Investitions- und Entwicklungsgesellschaft mbh</a> , for the Period from February 4, 2005 to December 31, 2008	5-306-10-001-D	30-Mar-2010	1,281,561	56,974	1,952	
33	Quality Control Review of the Financial Audit Conducted by KPMG Afghanistan Limited of the Local Costs Incurred by <a href="#">Louis Berger Group, Inc./Black &amp; Veatch Special Projects Joint Venture</a> to Implement the Afghanistan Infrastructure Rehabilitation Program (AIRP), USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from October 1, 2007 to September 30, 2008	5-306-10-001-Q	18-May-2010	0			
34	Financial Audit of Cost Incurred and Billed for the Project "Human and Institutional Capacity Building for Afghanistan Energy and Natural Resources Sector" (Task Order No. DOT-I-04-04-00022-00), USAID/Afghanistan Cooperative Agreement No. 306-P-00-10-00514-00, Managed by <a href="#">the Advanced Engineering Associates International</a> , for the Period from July 3, 2008 to June 30, 2009	5-306-10-002-D	28-Sep-2010	3,523,452	12,115	12,115	
35	Financial Audit of the Program " Regenerating Murad Khane, Restoring Refurbishing and Revitalizing the Old City, " USAID/Afghanistan Cooperative Agreement No. 306-A-09-00503-00, Managed by <a href="#">the Turquoise Mountain Trust</a> , for the Period from January 1, 2009 to December 31, 2009	F-306-11-001-R	26-Oct-2010	2,501,824			
36	Financial Audit of Local Costs Incurred by the <a href="#">Joint Venture Louis Berger Group, Inc./Black &amp; Veatch Special Projects Corp.</a> to Implement the Afghanistan Infrastructure Rehabilitation Program, USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from October 1, 2008 to September 30, 2009	5-306-11-002-N	16-Nov-2010	10,773,130	258,232	1,915,451	
37	Financial Audit of Program "Fiduciary Support to the <a href="#">American University of Afghanistan</a> " Subgrant Under the Asia Foundation Award No. 306-G-00-05-00525-00 and " The USAID Direct Support to AUAF " Cooperative Agreement No. 306-A-00-08-00525-00 for the period from July 1, 2008 to June 30, 2009	F-306-11-002-R	20-Dec-2010	9,539,090	685,643	116,273	

No.	Audit Title	Report Number	Report Date	Total Costs Audited (\$)	Questioned Costs (\$)	Sustained Costs (\$)	Details for Questioned Costs over \$1 Million
38	Financial Audit of the Program "Civilian Technical Assistance Program (CTAP)" USAID/Afghanistan Grant Agreement No. 306-09-CTAP-0001, Managed by the Ministry of Finance, for the Period from September 30, 2009, to September 30, 2010	F-306-11-001-N	21-Jul-2011	5,500,000	2,045	77	
39	Audit Report of Technologist Inc. Costs Incurred/Billed under USAID Task Order No. 306-O-00-04-00539-00, for Afghanistan Industrial Estate Development Program for the Period from May 24, 2004, through December 31, 2007	F-306-11-001-D	23-Aug-2011	21,463,590	6,563,050		Questioned costs related to not reconciling to the contractor's underlying lower level supporting schedule; the contractor didn't follow terms of the contract, the contractor not obtaining a consent letter for subcontracts.
40	Financial Audit of the Project " Policy Capacity Initiative Activity (PCIA) " USAID/Afghanistan Grant Agreement No. 306-IL-09-12-0004.00, Managed by the Ministry of Communication and Information Technology, for the Period from Program Inception April 09,	F-306-11-003-N	29-Sep-2011	450,138	118,478		
41	Financial Audit of the Program "Partnership Contracts for Health Services (PCH)" USAID/Afghanistan Grant Agreement No. 306-08-IL-06-00, Managed by the Ministry of Public Health, for the Period from Program Inception July 20, 2008, Through September 22, 2010	F-306-12-001-N	3-Oct-2011	32,812,937	1,328,310		Questioned costs include \$1,166,851 charged on account of currency exchange loss; \$123,855 charged on unallowable budget provision; \$4,552 on account of insufficient supporting documentation; unsupported costs.
42	Local Costs' Financial Audit of the Small and Medium Sized Enterprise Development Activity (ASMED) by Development Alternatives Inc. (DA), Contract No. 306-C-00-07-00503-00, for the Period October 1, 2009, to September 30, 2010	F-306-12-002-N	10-Oct-2011	18,631,159	88,650		
43	Financial Audit of the Program "MoF-Salary Support Program" USAID/Afghanistan Project Implementation Number (PIL), 306-IL-10-01, Managed by the Ministry of Finance, for the Period from June 6, 2010, to September 30, 2010	F-306-12-003-N	13-Oct-2011	1,000,000	356,469		
44	Financial Audit on the Local (non-U.S.) Costs (Costs Incurred and Paid in Afghanistan) Under USAID Contract No. 306-I-00-06-00517-00 With the Louis Berger Group, Inc./Black & Veatch Corp. Joint Venture for the Period from October 1, 2009, to September 30, 2010	F-306-12-004-N	19-Dec-2011	10,779,108	2,499,031		The audit firm identified \$417,117 in ineligible costs and unsupported costs of \$2,081,914.
45	Independent Audit of Black & Veatch Special Projects Corporation Direct Costs Incurred and Billed on Contract No. 306-I-00-06-00517-00 from August 25, 2006, to September 30, 2008	F-306-12-001-D	20-Dec-2011	136,000,000	32,198,382		DCAA questioned the billed costs based on a variety of reasons such as costs unallowable due to a lack of documentation detailing the delivery, receipt, and acceptance of the subcontracted products or services, excess travel costs.
<b>45 Financial Audits Issued</b>				<b>\$1,055,758,593</b>	<b>\$148,346,102</b>	<b>\$3,880,051</b>	
<b>Percentage of Costs Audited</b>					<b>14.05%</b>	<b>0.37%</b>	

Alpha designation in report number

N = Nonfederal audit

D = Defense Contract Audit Agency Audit

R = Recipient-contracted Audit

Q= Quality control review

# **Planned Performance Audits of USAID/Afghanistan-Funded Activities Fiscal Year 2012**

## **Audit of USAID/Afghanistan Design for Sustainability in the Education Program**

Improving access to quality education within Afghanistan remains a priority for USAID/Afghanistan. Since 2002, USAID/Afghanistan has disbursed approximately \$414 million to expand access to basic education—primarily in grades one through six—by training teachers, constructing and rehabilitating schools, supporting community-based education, and implementing accelerated learning programs to those who missed the opportunity to attend school due to decades of war and to girls and women who were denied education under Taliban rule.

The concept of sustainability or the continued benefits of foreign development assistance is embodied in the Foreign Assistance Act and in USAID policy. This audit will determine whether USAID/Afghanistan has built sustainability into selected education programs.

*Status: Planned.*

## **Audit of USAID/Afghanistan’s Performance-Based Governors’ Fund**

The performance of provincial governments’ in delivering services and responding to the needs of its constituencies is a critical factor in public perception of the legitimacy of the state and public confidence in the Afghan Government’s reform process. In October 2009, USAID/Afghanistan awarded The Asia Foundation a \$13 million cooperative agreement, subsequently increased to \$16 million, to implement the Performance-Based Governors’ Fund through May 2011. USAID/Afghanistan intends to add an additional \$75 million and extend the period of performance an additional 18 months. As of March 31, 2011, USAID/Afghanistan has obligated \$16 million and disbursed \$13 million for program activities.

This audit will determine if the Performance-Based Governors’ Fund is meeting its primary goal of providing financial and technical assistance to Governors and their teams so that they are better able to meet community outreach needs, enhance their relationships with citizens, and improve their overall management capacity.

*Status: Planned.*

## **Audit of Gender-Related Activities in Selected USAID/Afghanistan Programs**

Afghanistan is a diverse but traditional society where opportunities for women are limited by poverty, low levels of literacy and education, conservative ideologies, and traditional forms of social and political organization. USAID/Afghanistan plays a leading role in implementing the U.S. Government’s civilian strategy for assistance to women in Afghanistan in the areas of (1) health, (2)

education, and (3) economic development, and it plays a supporting role in implementing the strategy in the areas of (4) security and access to justice and (5) political empowerment.

This audit will determine:

- How gender issues have been considered in designing, implementing, and measuring the performance of selected USAID/Afghanistan programs.
- What impacts these programs have had on the health and educational status, economic development, and political empowerment of Afghan women and girls.

*Status: Planned.*

### **Audit of USAID/Afghanistan's Management Controls for Efficiently Managing Program Operations**

Efficiency is an important U.S. Government objective, as reflected in the Government Performance and Results Act, OMB Circular A-11, and the Federal Acquisition Regulation.

This audit will determine whether (1) USAID/Afghanistan has established performance indicators for efficiency of program operations and used these indicators to manage its programs and (2) USAID/Afghanistan's monitoring of its cost-reimbursement contracts provides reasonable assurance that efficient methods and effective cost controls are used.

*Status: Planned.*

### **Review of USAID/Afghanistan Payroll Internal Controls**

USAID/Afghanistan has 433 employees, and its estimated annual payroll is \$76 million. There are concerns over the approval and certification of overtime charges and timeliness over the payment of certain benefits. This review will determine if USAID/Afghanistan has sufficient internal controls in place to properly approve time charges and pay employees on time.

*Status: Planned.*

### **Audit of USAID/Afghanistan's Transition Plans**

The Government of Afghanistan depends on international forces to provide security and other basic services to its citizens. However, fiscal pressures in the United States and other NATO countries have helped focus attention on the need for the Government of Afghanistan to assume responsibility for provision of basic services within the next 3 years.

NATO plans to transfer lead security responsibility for all provinces to the Government of Afghanistan by the end of 2014. At that time, assistance levels are expected to fall significantly.

This audit will determine if USAID/Afghanistan (1) has developed measurable performance targets to be achieved by USAID programs by 2014 and (2) assessed the capability of the Government of Afghanistan to sustain program accomplishments after 2014.

*Status: Planned.*

### **Audit of USAID/Afghanistan’s Regional Afghan Municipalities Program for Urban Population (RAMP UP) – East**

The governance structure in Afghanistan is highly centralized and sub-national governance institutions, particularly at the municipal level, lack clarity on their roles and functions and are often nonresponsive to community needs. Development Alternatives Inc. implements the Regional Afghan Municipalities Program for Urban Population—East through a \$52 million contract.

This audit will determine whether the Regional Afghan Municipalities Program for Urban Population—East program is achieving its main goal of creating effective, responsive, democratic, transparent, accountable, municipal governance in the eastern provinces by increasing the capacity of the Afghanistan municipal officials to enable, support, and sustain economic growth.

*Status: Planned.*

### **Audit of USAID/Afghanistan’s Region Afghan Municipalities Program for Urban Populations for Regional Platform (RAMP UP) – Southern Region**

Chemonics International Inc. implements the Regional Afghan Municipalities Program for Urban Population—Southern Region through a \$100 million contract. This audit will determine whether the regional Afghan Municipalities Program for Urban Population—Southern Region is achieving its main goal of creating effective, responsive, democratic, transparent, accountable, and gender-sensitive municipal governance in select municipalities in Afghanistan.

*Status: Planned.*

### **Audit of the Sustainability of USAID/Afghanistan’s Office of Infrastructure, Engineering, and Energy Programs**

Afghanistan’s physical infrastructure reflects the effects of 30 years of war and the country’s poverty. Since February 2004, USAID/Afghanistan has committed \$2.6 billion to infrastructure programs. USAID/Afghanistan has 21 active infrastructure awards totaling \$1.2 billion and has completed another 28 programs totaling \$1.4 billion. Sustainability of these infrastructure programs is of great concern because the Afghan government is heavily dependent on foreign donors: 41 percent of the Afghan Government’s operating budget and 100 percent of the development budget comes from foreign donors.

The audit will determine if roads, vertical structures, and water projects turned over to the Government of Afghanistan are being maintained and used for their intended purposes and if the Afghan Government earns enough revenue to maintain this infrastructure.

*Status: Planned.*

## **Review of USAID/Afghanistan's Contracts and Cooperative Agreements**

USAID/Afghanistan manages the largest program in USAID's 50-year history, with an FY 2011 budget of \$2.1 billion. The mission manages one of the most complex development portfolios in one of the most demanding environments in the world; a portfolio which includes a broad range of programs in infrastructure, education, health, capacity building, agriculture, economic growth, democracy and governance, and the empowerment of women. Since USAID/Afghanistan opened, it has issued approximately 291 awards totaling approximately \$11.7 billion.

This review will determine if USAID/Afghanistan's open contracts and cooperative agreements contain required clauses and if waivers were obtained for non-competitive awards.

*Status: Planned.*

## **Audit of USAID/Afghanistan's Kandahar Power Initiative**

USAID/Afghanistan awarded Black & Veatch Special Projects Corporation a \$266 million contract to implement the Kandahar Power Initiative from December 4, 2010 to September 30, 2013. As of March 31, 2011 USAID/Afghanistan has obligated \$20 million and disbursed \$1 million. The program contains components for upgrading transmission systems, rebuilding electrical substations, providing additional diesel generators, and installation of a third turbine at the Kajaki Hydro Power Plant.

This audit will determine if the Kandahar Power Initiative is meeting its main goal of increasing the supply and distribution of electrical power from Afghanistan's South East Power System with particular emphasis given to the City of Kandahar in support of the U.S. Government's counterinsurgency strategy.

*Status: Planned.*

## **Audit of the Financial Sustainability of USAID/Afghanistan's Energy Sector Programs**

Since 2004, the mission has committed approximately \$1 billion to help reconstruct Afghanistan's energy sector. USAID/Afghanistan has 12 active energy sector awards totaling \$489 million and has completed another 17 programs totaling \$569 million. Programs implemented by USAID/Afghanistan cover construction of new power plants and substations; refurbishment of existing hydro electric power plants; upgrading or installing new transmission lines; providing operations and maintenance support of diesel generators; installation of alternative sources of power such as solar, wind and micro hydro; and assistance in commercializing the energy sector. In addition, USAID/Afghanistan has purchased \$121 million in fuel to operate diesel generators.

Last year, 41 percent of the Afghan Government's operating budget came from foreign donors, indicating a potential that facilities turned over to the Afghan Government may not be sustainable.

The audit will determine if the Government of Afghanistan earns enough revenue to operate and maintain its electrical infrastructure, including the infrastructure financed by USAID/Afghanistan.

*Status: Planned.*

## **Audit of USAID/Afghanistan's Approaches to Providing Technical Assistance to the Government of Afghanistan**

USAID/Afghanistan provides technical assistance to the Government of Afghanistan through at least four different mechanisms: advisors embedded in host government ministries, institutional contractors, grants, and the Civilian Technical Assistance Program administered by the World Bank.

This audit will determine (1) the advantages and disadvantages of the different approaches that USAID/Afghanistan uses to provide technical assistance to the Government of Afghanistan and examine (2) how USAID/Afghanistan decides which technical assistance approach to use.

*Status: Planned.*

## **Review of USAID/Afghanistan's Use of Third Country National Employees**

Third-country national employees are normally used when qualified persons are not available in the host country; limitation of time or other conditions prevent the training of persons in the host country for the job; or it is determined that program efficiency and policy objectives can be achieved only by using third-country nationals as a temporary substitute for available, eligible and qualified U.S. citizens and persons from the host country. In all cases, the establishment of a third-country national position should be temporary in nature. In FY 2011 the mission had 14 third-country national employees with an estimated annual payroll of \$1.7 million.

This audit will determine if USAID/Afghanistan is efficiently using third-country national employees appropriately while training Afghan staff to assume their responsibilities.

*Status: Planned.*

## **Audit of Field Staff Monitoring of USAID/Afghanistan Programs**

As of October 16, 2010, USAID/Afghanistan had 120 field-based staff. USAID/Afghanistan issued Mission Order 103.2 on September 22, 2010, to formalize the responsibilities of its field staff.

This review will determine if (1) USAID/Afghanistan is hiring qualified and experienced individuals to serve in the field in support of its mission in Afghanistan and (2) field staff are



monitoring USAID programs in accordance with Mission Order 103.2 and other applicable criteria.

*Status: Planned.*

## **Follow-up Audit on Selected OIG Recommendations to USAID/Afghanistan**

In USAID, recommendation follow-up is a shared responsibility between the OIG and other agency components. In particular, per Automated Directives System 595.3.1.6, audit action officers request determinations of final action from the Bureau of Management/Chief Financial Officer/Audit, Performance, & Compliance, and the bureau decides if final action has been taken on audit recommendations. As of the end of the third quarter of fiscal year 2011, the OIG had made 203 audit recommendations concerning programs in Afghanistan, and the majority of them have determinations of final action. The recommendations included \$105.2 million in questioned costs.

This audit will determine if USAID/Afghanistan's actions on selected OIG recommendations corrected the problems that led to the original recommendations.

*Status: Planned.*

## **Review of USAID/Afghanistan's Monitoring & Evaluation System**

Adequately monitoring USAID projects and programs in a high threat environment is a challenging task. Nevertheless, USAID/Afghanistan appears to be lacking some of the basic monitoring systems and infrastructure present in most USAID overseas missions. These systems and infrastructure are that much more vital in an environment like Afghanistan, where the mission experiences constant turnover because of the prevalence of one-year tours. This review will determine whether the mission had established an appropriate monitoring and evaluation system, whether that system is operating effectively, and if not, what steps must be taken to strengthen that system.

The review will cover all levels of USAID/Afghanistan's monitoring and evaluation system. It will include assessing the mission's PMP and a sample of active projects that represent various mission program sectors.

*Status: Ongoing.*

# Afghanistan Performance Audits

## Fiscal Year 2012

### Review of Responses to Internal Audit Findings on the Local Governance and Community Development Project (F-306-12-001-S)

<b>Date:</b>	December 26, 2011
<b>Implementing Partner:</b>	Development Alternatives Inc.
<b>Audit Period:</b>	June 19 through August 14, 2011
<b>Funding:</b>	As of October 2011, USAID/Afghanistan obligated \$328 million and disbursed \$317 million.

#### Background—Summary of Findings

Launched in October 2006, the Local Governance and Community Development Project sought to promote stability in Afghanistan. Focused in Kandahar City and the Maywand District, Development Alternatives Inc. (DAI) implemented the project through a contract that ended in August 2011.

The project had many successes, including the completion of more than 2,500 community stabilization projects; generation of immediate short-term employment totaling 1.5 million employment days through cash-for-work activities; and completion of significant and lasting improvements in rural infrastructure, including gravel roads, footbridges, and irrigation systems. However, in March 2011, OIG received a copy of a DAI internal audit report detailing financial and internal control problems occurring from August 2008 through August 2009. DAI had not provided this report to USAID or returned any funds related to questioned expenditures identified in the report.

Procurements for the project, including service contracts, fuel supply, and building and vehicle leasing had several deficiencies. For instance, analysis of payment vouchers and the associated procurement documents revealed \$2,019,036 in noncompetitive procurements. In addition, OIG's review of leases for office space and guesthouses, at an amount of \$6.7 million over 4½ years, revealed that project personnel had entered into several leases without the required competition, and without required approvals. In addition, some rental payments were apparently made to the project cashier, instead of to the lessors identified in the lease agreements. DAI staff explained that because many of the property owners did not have bank accounts, lease payments needed to be in cash. OIG found no documentation showing that the lessors had signed for receipt of their monthly rents.

Furthermore, OIG determined the contract files for three vehicle leasing companies lacked preaward documents, bid solicitations, other vendors' quotations, and approvals

from DAI procurement managers. In one incident, a bid submitted for one procurement (to provide armored and unarmored vehicles) was copied and included as proof of competitive bidding in another procurement, and correction fluid had been used to obscure relevant information. DAI

staff members were also unable to locate the contract file, payment vouchers, or project receipts for fuel purchases totaling \$3,424,400 from Khyber Afghan Petroleum, one of DAI's suppliers. DAI staff had no explanation for this lack of documentation.

## **Recommendations—Management Decisions**

The audit report made seven recommendations:

1. Determine the allowability of and recover as appropriate from Development Alternatives Inc. the \$748,683 in costs related to vehicles leased without proper approvals and without full and open competition.

*The mission agreed with the recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.*

2. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, the \$352,500 in questionable lease payments for Local Governance and Community Development Project office space and guesthouses identified in the DAI internal audit report.

*The mission agreed with this recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.*

3. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$2,019,036 in goods and services procured without adequate competition and supporting documentation.

*The mission agreed with the recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.*

4. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$3,424,400 in inadequately supported fuel purchases for the Local Governance and Community Development Project.

*The mission agreed with this recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs*

*through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.*

5. Determine whether Development Alternatives Inc. billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, disallow and recover the costs.

*The mission agreed with the recommendation. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. This recommendation remains open.*

6. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, the \$4,781.87 in unapproved seat upgrades on international flights charged to the Local Governance and Community Development Project.

*The mission disagreed with the amount and description provided in Recommendation 6, which recommended that the mission determine the allowability of \$4,257,722 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project, and recover from DAI any amounts determined to be unallowable. The amount of unapproved seating upgrades included in the draft recommendation was the total amount of international travel costs, because DAI was unable to provide OIG with a complete, comprehensive listing of those upgrades. Subsequently, DAI provided an analysis of its upgraded international travel costs to USAID/Afghanistan, which determined that the actual unallowable travel cost related to seating upgrades was \$4,781.87 of which \$4,483.87 had already been recovered. The balance of \$298 is to be credited against future Invoices submitted by DAI. In response to the mission's comments, we modified the questioned cost of unapproved seating upgrades in the recommendation. The target date for final collection of this amount is December 31, 2011, and that is the target date for final action. This recommendation remains open.*

7. Arrange for a financial audit of the Local Governance and Community Development Project to help ensure that all the costs charged to USAID were reasonable, allowable, and allocable.

*The mission agreed with this recommendation. In addition, USAID/Afghanistan indicated that it would include a closeout financial audit of the Local Governance and Community Development Project in its fiscal year 2012 audit management plan. The target date for final action is May 31, 2012. This recommendation remains open.*

## **Audit of USAID/Afghanistan’s Afghanistan Stabilization Initiative for the Southern Region (F-306-12-001-P)**

**Date:** November 13, 2011

**Implementing Partner:** Chemonics International, Inc.

**Audit Period:** March 5 through May 18, 2011

**Funding:** USAID/Office of Transition Initiatives had obligated \$91.1 million and disbursed \$66.9 million

### **Background—Summary of Findings**

In June 2009, the USAID Office of Transition Initiatives (OTI) signed a 3-year, \$159.6 million contract with Chemonics International, Inc. (Chemonics) to implement the Afghanistan Stabilization Initiative for the Southern Region (ASI-SR). ASI-SR has implemented project activities through grants in districts and municipalities in Kandahar and Helmand Provinces.

OIG was unable to reach a conclusion about whether the program as a whole was achieving its goal because of multiple issues with the program. Many of these problems stemmed from program implementation, which was delayed by a lack of formal work plans, inadequate USAID/OTI oversight, staffing difficulties, and poor quality subcontractors, among others. In addition, Chemonics did not properly manage its budget and began running out of funds in the first quarter of fiscal year 2011.

Security costs were also questionable. Chemonics paid \$1.2 million for personal security details for staff members who lived on military bases and traveled exclusively in military convoys, even though no other contractor incurs this type of cost when the contractor’s staff members are resident on a military installation.

Furthermore, Chemonics officials stated that the company had leased 13 armored vehicles because it felt the vehicles were needed to provide sufficient security. However, Chemonics’ security personnel prohibited expatriate staff from traveling into the field, and to maintain a low profile, local staff were using unarmored vehicles. They lease costs were unreasonable which results in questioning use.

The long-term benefits of the initiative were also undercut by a lack of planning. Although some key districts were ready for longer-term development projects, no comprehensive plans were in place to guide this transition. Without a comprehensive transition plan to prepare for longer-term development, key districts may not be able to sustain gains in stability, as district governors may not have the resources to meet the needs of their communities.

Financial controls were also problematic. For example, Chemonics is using cash to make large tax payments to the Afghan Government, increasing the risk that a payment may be stolen. In May 2011, an employee sent to a bank in Lashkar Gah with \$62,398 to pay taxes to the Ministry of Finance disappeared with the money. Due to instances like this, Chemonics officials

contend that this presents a risk to companies, as funds have had a tendency to

“get lost” in the banking system and it is difficult to prove deposits were ever made.

## **Recommendations—Management Decisions**

The audit report made 18 recommendations:

1. Direct Chemonics to develop detailed work plans for program implementation based on the district stability framework and determine the adequacy of these plans.

*USAID/OTI concurred with the recommendation. Further, USAID/OTI stated that 1) district strategies have been written and approved by OTI for all active program districts (or sub-districts in the case of Kandahar City); 2) all USAID/OTI staff and all but the newest Chemonics staff have received District Stability Framework training; and 3) the District Stability Framework is in use in all active USAID/OTI programming districts and Kandahar City. Nevertheless, USAID/OTI did not provide documentation of its direction to Chemonics concerning the development of work plans. We consider that USAID/OTI has reached a management decision on this recommendation, but the recommendation remains open.*

2. Develop objective standards for evaluating Chemonics’ performance, including standards for timeliness of program implementation.

*USAID/OTI agreed with the recommendation and noted that 1) Chemonics received general guidance to design grants that can be implemented in the three to five month range; 2) USAID/OTI and Chemonics now hold weekly (or bi-weekly in Districts with less grant volume) implementation meetings to review performance of each ongoing grant; and at the end of grant implementation, Chemonics is required to write a Final Evaluation Report. While these may be elements that provide information concerning grants, they do not necessarily constitute objective measures to evaluate Chemonics performance. We consider that USAID/OTI has reached a management decision on this recommendation. Thus, this recommendation remains open.*

3. Develop formal communication protocols to facilitate interaction and communication between USAID/OTI managers and Chemonics’ officials.

*USAID/OTI agreed to develop a new communications protocol. It stated that 1) USAID/OTI’s Regional Representative and Deputy Regional Representative have instituted weekly leadership meetings with Chemonics chief of party and deputy chief of party, 2) weekly implementation meetings have been instituted with Chemonics field director and other relevant staff, 3) a USAID/OTI representative and Chemonics staff usually meet at Chemonics’ Kandahar office at least once per week, and 4) USAID/OTI’s monitoring and information officer regularly meets with Chemonics’ monitoring and evaluation staff at Chemonics Kandahar headquarters. Based on these actions, this recommendation is closed.*

4. Prepare activity manager designation letters describing the responsibilities of field program managers.

*USAID/OTI agreed that it should prepare activity manager designation letters describing field program managers’ responsibilities. USAID/OTI noted that it has drafted designation letters for its*

- field program managers and is coordinating final approval of those letters. This recommendation remains open.*
5. Provide training for its field program managers to include roles and responsibilities as well as how to implement the program.  
  
*USAID/OTI agreed with the recommendation. OTI stated that it has provided training in these areas to its staff, although it did not provide documentation evidencing such training. Thus, this recommendation remains open.*
  6. Instruct Chemonics to balance its program grants portfolio to include more small-scale activities.  
  
*USAID/OTI agreed with the recommendation. OTI also indicated that, among other things, it had provided guidance that the program should refrain from implementing large infrastructure projects with complex subcontracts and that the program is now only approving grants of \$100,000 or less. This recommendation remains open.*
  7. USAID/OTI formally delegate contracting officer's technical representative (COTR) responsibilities to the USAID/OTI Regional Representative in Kandahar.  
  
*USAID/OTI agreed with the recommendation. According to OTI, the designation memo is awaiting final approval and should be issued by November 30, 2011. This recommendation remains open.*
  8. Implement budgetary controls at the district level to manage existing and future grants.  
  
*USAID/OTI agreed with the recommendation. OTI also noted that it had established quarterly budgets for each district and was tracking disbursements and commitments against those budgets as well as taking other measures. This recommendation is closed.*
  9. USAID/OTI recover, as appropriate, the \$12,200 spent for supporting other agencies under the ASI-SR program.  
  
*USAID/OTI and the mission are currently reviewing the recommendation to recover as appropriate the \$12,200 spent for supporting other agencies under the program. Consequently, this recommendation remains open.*
  10. Develop benchmarks to assess Chemonics' progress in closing out completed grants.  
  
*USAID/OTI concurred with the recommendation. OTI indicated that it uses its Activity Database to monitor grants through the activity cycle from concept to closure. It further stated that it meets with Chemonics on a weekly and biweekly basis to confirm project implementation progress and that an official modification is required if a grant is nearing its end date. Nevertheless, these mechanisms do not constitute benchmarks for assessing Chemonics' progress in closing out grants. This recommendation remains open.*
  11. Issue guidance to Chemonics describing time frames for project closeout.

*USAID/OTI concurred with the recommendation. While USAID/OTI did provide a document titled New Guidance on Activity Modification & Grant Closure Procedures, there is no indication that this document was issued to Chemonics. This recommendation remains open.*

12. Direct Chemonics to assist Afghan Government officials in developing a local branding plan.

*USAID/OTI concurred with the recommendation. USAID/OTI intends to issue specific guidance to its field program managers to work with Chemonics and government officials on district branding plans by November 30, 2011. This recommendation remains open.*

13. USAID/Afghanistan 1) identify the districts in which it intends to implement post-transition development projects, 2) develop transition plans for districts in which it plans to implement future projects, and 3) closeout plans for districts where it will not implement new projects.

*USAID/Afghanistan did not agree to dedicate resources to develop district transition plans because it has not determined whether it is necessary to implement near- and longer-term development programs in each of the districts in which OTI projects have been implemented. Accordingly, we modified our recommendation to focus on that determination and subsequent necessary action. USAID/Afghanistan has not reached a management decision and this recommendation remains open.*

14. Determine the allowability of \$6.5 million in security costs and recover costs determined to be unallowable.

*USAID/OTI agreed with the recommendation. A management decision may be recorded when the contracting officer determines whether the questioned costs are allowable. Thus this recommendation remains open.*

15. Instruct Chemonics to develop compensating controls for use in conjunction with cash payments.

*USAID/OTI concurred with the recommendation and agreed to direct Chemonics to develop compensating controls for use in conjunction with cash payments. However, although USAID/OTI indicated that it had directed Chemonics to develop such controls, it did not provide a copy of that direction with its management comments. This recommendation remains open.*

16. Instruct Chemonics to report actual results in its progress reports.

*USAID OTI concurred with this recommendation. It has provided Chemonics with such direction, as well as other guidance. Thus, this recommendation is closed.*

17. Develop procedures for validating reported results on a periodic basis.

*In response to the recommendation that it develop procedures for periodically validating reported results, USAID/OTI indicated that it is verifying "actuals" as part of its review prior to closing out activities. USAID/OTI also stated that it works with Chemonics to implement a robust monitoring plan to track activity progress and verify completion. In addition, USAID/OTI distributed to OTI*



*and Chemonics' staff a revised final evaluation template for activities, the instructions for which indicate that it should include an explanation describing how output information was verified. While USAID/OTI's comments indicate agreement with this recommendation, they do not specifically identify the procedures that it will apply to validate results reported by Chemonics. This recommendation remains open.*

18. Complete all required contractor performance reviews under the ASI-SR contract.

*USAID/OTI concurred with the recommendation. It also stated that the first annual contractor performance review had been completed and that it expected to finalize the second annual contractor performance report by November 30, 2011. This recommendation remains open.*

# Afghanistan Performance Audits

## Fiscal Year 2011

### **Audit of USAID/Afghanistan's On-Budget Funding Assistance to the Ministry of Public Health in Support of the Partnership Contracts for Health Services Program (F-306-11-003-P)**

<b>Date:</b>	September 29, 2011
<b>Implementing Partner:</b>	Government of the Islamic Republic of Afghanistan (Ministry of Public Health (MoPH))
<b>Audit Period:</b>	April 17 through June 30, 2011
<b>Funding:</b>	As of May 31, 2011, USAID had obligated \$56 million, disbursed \$47 million, and advanced \$3 million for the PCH program.

#### **Background—Summary of Findings**

In 2008, USAID signed an implementation letter with the Government of the Islamic Republic of Afghanistan to provide the mission's first core-budget funding assistance to the Ministry of Public Health (MoPH) in support of the Partnership Contracts for Health Services (PCH) Program. Under this program, the mission planned to provide MoPH with up to \$236 million in budget assistance over 5 years to support the delivery of standardized health services in more than a dozen target provinces. In 2009, MoPH awarded \$80 million in contracts to ten nongovernmental organizations (NGOs). These NGOs were responsible for providing standardized health services in more than 500 health facilities and 5,500 health posts throughout the target provinces.

OIG's audit found that sustainability of the program was a concern. The government's extremely low contribution to healthcare raises questions about the long-term viability of health services. With shrinking donor support in the foreseeable future, the Afghan Government's ability to increase healthcare coverage to 90 percent of the population

appears unlikely, while its ability to sustain the current level of coverage remains uncertain. Unless the Afghan government is able to generate sufficient revenue to cover its healthcare costs, the health sector's dependency on donor support will continue.

Although the program has contributed to increasing access and use of health services, OIG noted deficiencies in quality at all health facilities visited. Doctors and staff at several facilities complained that the volume of patients was up to double their capacity to handle. Patients would sometimes have to wait up to 5 hours before receiving medical services, and others would go home without receiving treatment. Some of the health facilities had old equipment that needed repair or replacement. One health facility had a newly donated anesthesia machine, but the responsible NGO ignored repeated staff requests for training on the equipment. Several of the buildings were in poor condition, requiring repairs, renovation, and painting.

Program management also needs to be tightened. Confusion over who responds to MoPH's technical inquiries has led to delayed responses or inadequate feedback from USAID. In addition, the mission has limited experience in managing on-budget assistance activities. In fact, when trying to resolve the problem of consistently late payments to the NGOs, Ministry and USAID staff had difficulty explaining the lengthy and

complicated process, and OIG could not find anyone who could explain the process from start to finish. Staff attempted to explain the process within their own areas of responsibility, but they contradicted one another, and most were not sure what happened outside of their own areas.

## **Recommendations—Management Decisions**

The audit report made 13 recommendations:

1. In collaboration with MoPH, develop and implement a plan that (1) improves the NGO contractors' supervision, monitoring, and problem solving at their health facilities; and (2) verifies the successful implementation of a reliable quality assurance mechanism by the NGO contractors, including the establishment of quality assurance committees at each of the health facilities.

*USAID plans to work with Ministry of Public Health to develop and implement a plan that identifies which elements the nongovernmental organization contractors should address. USAID/Afghanistan will also work with the Ministry of Public Health to ensure that nongovernmental organizations' roles and responsibilities related to quality assurance are clearly defined and articulated and are in line with established guidance on quality assurance. The mission will also work to ensure that the Ministry of Public Health's monitoring plans cover quality assurance issues. The mission intends to implement this plan by February 29, 2012. This recommendation remains open.*

2. Assist MoPH in establishing and implementing a plan to ensure that NGO contractors are verifying that the requirement of second-person verification is being effectively implemented at health facilities.

*The mission agreed with the recommendation. The mission will work with the Ministry of Public Health to develop a plan to reinforce verification guidelines and to incorporate monitoring of implementation of the verification guidelines into the Ministry of Public Health's facility monitoring plan. The mission anticipates completion and implementation of the plan by March 31, 2012. Based on the proposed action, the mission has reached a management decision. This recommendation remains open.*

3. In collaboration with MoPH, develop a plan to (1) identify a pool of qualified civil service employees who would benefit from capacity building training in order to sustain the ministry's capacity for managing the PCH program and (2) provide the training.

*The mission agreed with the recommendation. The mission anticipates working with the Ministry of Public Health to develop a plan to identify and assign civil-service counterparts for training by PCH long-term external advisers. The mission anticipates completing action on this recommendation by*

*March 31, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.*

4. Work with MoPH and the Ministry of Finance (MoF) to streamline the payment process to accelerate payments to NGO contractors and health workers.

*The mission agreed with the recommendation. Specifically, the mission will conduct an assessment of Ministry of Public Health systems, policies, and procedures and use the results of the assessment to streamline the payment process. The mission intends to complete this task by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.*

5. Work with MoPH and MoF to (1) implement written policies and procedures that clearly define the roles, responsibilities, and approval authorities for the payment process; and (2) provide them with further training on the advance/liquidation mode of payment.

*The mission plans to work with the Ministry of Public Health and the Ministry of Finance to implement written policies and procedures covering the payment process. USAID/Afghanistan also plans to provide further training to ministry staff on the advance/liquidation mode of payment. The mission anticipates completing this work by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.*

6. Work with MoPH and MoF to implement procedures limiting the frequency of changes made to the payment process and providing sufficient notification and clear instructions to NGO contractors on any changes.

*As mentioned in the response to Recommendation 4, the mission will conduct an assessment of Ministry of Public Health systems, policies, and procedures. The Mission will draw on the results of the assessment in working with Ministry of Public Health and Ministry of Finance to implement policies and procedures regarding changes in the payment process and issuance of instructions on such changes. The mission intends to complete these tasks by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.*

7. Review its internal administrative procedures, such as the processing of implementation letters, to ensure the smooth and timely flow of the payment process for on-budget assistance agreements.

*The mission agreed with the recommendation. The mission anticipates completing this review and modifying its procedures by February 29, 2012. Based on these proposed actions, a management decision has been reached. This recommendation remains open.*

8. Issue a mission order to provide an organizational framework with clearly defined roles and responsibilities of all mission offices responsible for managing on-budget assistance activities.

*The mission agreed with the recommendation. The mission intends to complete this task by February 29, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.*

9. Provide a formal designation letter similar to the designation letter for an agreement officer's technical representative (AOTR) to staff monitoring implementation of on-budget assistance agreements.

*The mission will include a provision related to the designation of activity or project managers for government-to-government assistance mechanisms in its revised mission order referred to in Recommendation 8. The mission anticipates completing this mission order by February 29, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.*

10. Work with MoPH to prepare a performance management plan for the PCH program.

*The mission agreed with Recommendation 10. Work is under way, with a target completion date of March 31, 2012. Based on the proposed action, a management decision has been reached. This recommendation remains open.*

11. Provide MoPH with clearly written definitions of Afghan Info performance indicators.

*The mission will provide the Ministry of Public Health with a list of Afghan Info performance indicators and their associated definitions by February 29, 2012. A management decision has been reached based on this proposed action. This recommendation remains open.*

12. Implement procedures to review and verify the accuracy of data entered into Afghan Info and provide timely feedback to users.

*The mission plans to provide PCH consultants with orientation to and training in utilizing the Afghan Info database, with a target completion date of February 29, 2012. However, while the training will address the needs of PCH, the mission's actions do not address the verification aspect of the recommendation. This recommendation remains open.*

13. In collaboration with MoPH, implement a plan to confirm and document accurate global positioning system (GPS) coordinates for the ministry's health facilities.

*The mission plans to request implementing partner assistance in updating GPS coordinates for health facilities and in developing a plan for completion of all GPS requirements. The plan is to be completed by February 29, 2012, and the updated GPS coordinates by March 31, 2012. Based on the proposed actions, a management decision has been reached. This recommendation remains open.*

## **Review of USAID/Afghanistan's Afghanistan Civilian Assistance Program (F-306-11-005-S)**

**Date:** August 31, 2011

**Implementing Partner:** International Organization for Migration

**Audit Period:** March 31, 2011, through June 16, 2011

**Funding:** As of March 2, 2011, according to USAID/Afghanistan records, \$54 million had been obligated and \$52 million spent under the program.

### **Background—Summary of Findings**

The Afghan Civilian Assistance Program was designed to assist Afghan families and communities that have suffered losses as a result of military operations against insurgents and the Taliban. The program is implemented through a \$76 million, 4½-year cooperative agreement with the International Organization for Migration (IOM). Beneficiaries under the program are generally given in-kind assistance, often in the form of kits that include food, household items, school supplies, or tools and equipment for agriculture or small business activities.

IOM did not properly manage commodities under the program. Inventory records revealed large quantities of flour, beans, rice, tomato sauce, and cooking oil that had expired were found, some with dates as far back as 2004. Rats had gnawed open dozens of food bags, and auditors noted feces inside and around the bags. Further, expired and

contaminated food items were not segregated from food that was fit for use. Other items such as wheelbarrows and shovels were stored in disorganized piles or even kept outside.

In addition to problems with commodities, there were also difficulties with verifying beneficiaries. A report commissioned by IOM to confirm assistance concluded that at least 34 percent of the beneficiaries in two districts could not be verified, most likely because of fraud. Moreover, the report's authors believed that program personnel were actively working to undermine the results of their investigation. Additionally, other funds were misspent when IOM used more than \$3.6 million in program funds to purchase cars for beneficiaries without USAID's approval. Furthermore, OIG determined that \$180,000 embezzled by field staff had not been properly reimbursed to USAID.

### **Recommendations—Management Decisions**

The audit report made seven recommendations:

1. Instruct IOM to (1) dispose appropriately of food in its warehouses that is no longer fit for human consumption, (2) clean and sanitize all of its warehouses, and (3) place the

warehouses under an appropriate management regime including staffing and supervision by qualified personnel, adequate sanitation and storage practices, and adequate record keeping.

*Specifically, the mission has instructed IOM to clean the warehouses and dispose of expired food items. As a result, IOM disposed of expired food items and implemented just-in-time delivery of food items to warehouses for distribution to beneficiaries. Under this system, food items spend a minimal amount of time in warehouses. IOM now orders kits to respond to confirmed beneficiary demand rather than for bulk storage. Finally, IOM has implemented written warehouse procedures for proper management of its warehouses. Based on these actions, final action has been taken. This recommendation is closed.*

2. Recover from IOM the cost of stored food that is no longer fit for human consumption, which we estimate at up to \$2,660,924.

*The mission agreed with Recommendation 2. The mission intends to issue a bill of collection to recoup the costs. The mission's review of the list also revealed items purchased from a prohibited source. The mission intends to perform a financial audit of the program, which will also include a review of items purchased from prohibited sources. This recommendation remains open.*

3. Recover from IOM the \$740,331 cost of Purchase Order 12, which was not needed to carry out program operations.

*The mission disagreed with Recommendation 3. According to the mission, the program was distributing assistance kits aggressively from February through July 2011 and, without the additional inventory on hand; the program might not have been able to assist all beneficiaries without interruption. The mission stated that IOM did not base its decision to award the purchase order on "a numerical analysis of beneficiary demand, but, rather, on the potential refusal of the current vendor, Uranus [Trading and Logistics Company], to guarantee future kit procurements." Such refusal, the mission stated, potentially would have left the program without a kit supplier and resulted in kit shortages and suspension of deliveries to beneficiaries. Finally, the mission indicated that all the kits from Uranus Trading and Logistics Company ultimately were distributed to beneficiaries.*

*We disagree with the mission's analysis. As detailed in the audit finding, IOM had inventory records supporting 4,821 kits stored at Uranus Trading and Logistics Company, and that total did not include kits stored in IOM warehouses, for which no inventory records were available. This order added 3,000 kits, which Uranus Trading and Logistics Company had to have stored.*

*Furthermore, testimonial evidence provided by a program official indicates that IOM management was aware that Purchase Order 12 was not needed before it was placed. In addition, given the inability of IOM to store these kits properly and the volume of kits available at the time the order was placed, Purchase Order 12 appears unreasonable. In terms of the Uranus Trading and Logistics Company's refusing future deliveries, the mission and IOM provided no evidence to substantiate this potentiality. Finally, no documentation was provided showing the distribution of all the Uranus Trading and Logistics Company kits during the audit or as part of the management response. Given the lack of inventory records available during the audit, it is incumbent on the mission to verify that there are supporting inventory records or other corroborating evidence that these kits were indeed distributed to legitimate recipients that were properly vetted through the ACAP grant approval*

*process.. Therefore, a management decision has not been reached, and we still recommend that the agreement officer determine the allowability of the kits purchased under Purchase Order 12. This recommendation remains open.*

4. Determine the allowability of and recover, as appropriate, the \$1,360,800 in shelter assistance grants in Helmand Province that could not be verified.

*The mission asked IOM for a summary of the assessment done by SHAL, a nongovernmental organization contracted by IOM, which will identify which individuals not entitled to assistance received commodities or cash. IOM is expected to forward the summary report by mid-September 2011. The mission will then review the report, and the agreement officer will make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate. The mission intends to communicate its determination to OIG by November 30, 2011. This recommendation remains open.*

5. Arrange for a financial audit of the Afghan Civilian Assistance Program to help ensure that the costs charged to USAID are reasonable, allowable, and allocable.

*The mission agreed with the recommendation, and included in its audit management plan a financial audit to begin on or about September 15, 2011. The mission's target completion date for the audit is January 31, 2012. On the basis of this information, a management decision has been reached. This recommendation remains open.*

6. Perform an environmental assessment for the program and implement any corrective actions that may be required.

*The mission partially agreed with the recommendation, that it determine the allowability of and recover, as appropriate, \$180,000 that was reportedly embezzled from the program. The mission agreed to recover the funds that were reportedly embezzled, but did not agree with the amount embezzled. The mission is currently reviewing documentation provided by IOM to determine the actual amount of funds misappropriated and will make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate. The mission intends to communicate its determination to OIG by November 30, 2011. This recommendation remains open.*

7. Perform an environmental assessment for the program and implement any corrective actions that may be required.

*The mission agreed with the recommendation, that it determine the allowability of and recover, as appropriate, the \$3,437,000 for the purchase of used vehicles. The agreement officer is reviewing the documentation provided by IOM to determine the allowability of this cost. USAID/Afghanistan will initiate recovery action, as appropriate, through the issuance of a bill for collection. The mission intends to communicate its determination to OIG by November 30, 2011. This recommendation remains open.*



# **Audit of USAID/Afghanistan’s Support to The Electoral Process (STEP) and Support for Increased Electoral Participation in Afghanistan (IEP) Programs (F-306-11-003-P)**

**Date:** June 19, 2011

**Implementing Partner:** International Foundation for Electoral Systems (IFES), the Consortium for Election and Political Process Strengthening (CEPPS)

**Audit Period:** December 9, 2010, to March 14, 2011

**Funding:** As of December 31, 2010, USAID had obligated approximately \$124.5 million and expended approximately \$98.9 million.

## **Background—Summary of Findings**

To help strengthen Afghanistan’s electoral system, USAID/Afghanistan has provided assistance through the Support to the Electoral Process (STEP) Program implemented under a contract with the International Foundation for Electoral Systems (IFES), and the Increased Electoral Participation in Afghanistan (IEP) Program implemented through a cooperative agreement with the Consortium for Election and Political Process Strengthening (CEPPS).

The STEP program has achieved many short term objectives—in particular, those dealing with civic education and outreach, training, and staffing of the Independent Election Commission (IEC) and the Electoral Complaints Commission (ECC).

The program has helped to increase the capacity of both commissions to administer elections and has contributed to the credibility of elections themselves. The IEP program has also performed well, training tens of thousands of Afghans who participated in elections as political party or coalition members and election observers. Furthermore, IEP implemented civil and voter education programs that reached hundreds of thousands of people.

Despite these accomplishments, however, no persuasive evidence exists that these short-term results have produced increased citizen awareness of the electoral process or a stronger democratic political party system. In fact, auditors reported on a number of longer-term issues that need to be addressed to better ensure credible elections, including legal reforms to protect the independence of the IEC and ECC, reform of the “single nontransferable vote” system of representation in favor of a system in which votes and electoral results have a more predictable and proportional relationship, actions to make Afghanistan’s electoral system more sustainable, and a more reliable voter registry.

Moreover, costs could have been reduced by consolidating consortium expenses. Specifically, each consortium participant had its own Kabul-based home office, living quarters, and support functions such as security, human resources, and information technology. Combining these costs would have saved the mission a combined 15 percent to 20 percent, or \$6 million to \$8 million.

## Recommendations—Management Decisions

The audit report made 9 recommendations:

1. Undertake a technical evaluation of the effectiveness of voter education and civic education efforts it has supported.

*The mission agreed and is working with implementing partners to develop a national survey that includes questions that focus on voter awareness and participation. These questions will gauge the effectiveness of USAID-supported voter and civic education. In addition to the survey instrument, the mission will conduct an election program evaluation in June and July 2011. This evaluation will examine the effectiveness of USAID's support to the election process and will include a review of the civic and voter education initiatives. The mission noted that it will be challenging to solicit meaningful data on the effectiveness of civic and voter education initiatives during a non-election period. These actions will be completed by October 31, 2011. This recommendation remains open.*

2. Prepare a more formal project design document for the follow-on program after the STEP program ends in June 2011 that explicitly identifies the critical assumptions underlying the program design.

*The mission plans to incorporate national perspectives into the design of its future elections support programs by engaging with the GIRoA and IEC counterparts. The mission also plans to invite independent technical elections specialists to conduct strategic reviews of the elections portfolio. These actions will be completed by September 30, 2011. This recommendation remains open.*

3. Develop detailed plans for addressing long-term legal reform, financial and constitutional arrangements for elections, and voter registration issues in conjunction with the Government of Afghanistan, other local stakeholders, and international donors.

*The mission has outlined a series of activities undertaken and others planned to address the legal reform, financial and constitutional arrangements for elections and voter registration. However, the mission did not provide a date to complete plans for addressing needed legal reforms, financial and constitutional arrangements for elections, and voter registration issues discussed in the finding because discussions on these issues are on-going. This recommendation remains open.*

4. Complete all required contractor performance reviews of IFES under the STEP contract.

*The mission agreed and the COTR and alternate COTR will complete the contractor performance reviews in collaboration with the Contracting Officer using the Contractor Performance Assessment Reporting system. The contractor performance reviews for the first two project years will be completed by August 31, 2011. Year 3 reviews will be conducted after the end of the period of performance on September 30, 2011. All actions will be completed by November 1, 2011. This recommendation remains open.*

5. Prepare an implementation plan for use of the \$1.4 million rural radio supplemental funding consistent with the goals of the program, or reprogram these funds for other mission programs.

*The mission has directed IRI to prepare an implementation plan for using the funds, and IRI has submitted a concept paper that envisions using the funds—originally for pre-election voter education programs—for radio programs focusing on the performance of elected officials and discussion of political and social issues. This recommendation remains open.*

6. Determine the allowability of the \$6,350,319 incurred by the International Republican Institute (IRI) for security expenses, and recover any costs determined to be unreasonable.

*The mission conducted a review to determine the allowability of the questioned security costs. After a review, it was determined that the \$6,350,319 was allowable. No further action was required. A management decision has been reached and this recommendation is closed.*

7. Establish procedures and criteria for determining the reasonableness of security costs charged by implementing partners.

*The mission asked the Office of Inspector General to reconsider its recommendation. The mission interpreted the recommendation as requiring a market price survey that could take 12 to 15 months, and it wondered whether this would be worthwhile in light of recent developments affecting private security firms in Afghanistan.*

*The mission noted that, once the Afghan Public Protection Force assumes responsibility for the security of USAID's partners, the partners will be expected to pay fixed prices for security services. Therefore, the mission considered that our recommendation was overtaken by events. This recommendation remains open.*

8. For the follow-on program, require members of the Consortium for Election and Political Process Strengthening to consolidate functions and facilities to the extent possible to reduce expenses.

*The mission partially concurred. The mission noted that a consolidation of functions and facilities of implementing partners' at the national level may prove less advisable. No management decision has been reached because the mission has not stated whether it will require the Consortium partners to consolidate functions and facilities at the national or sub-national level should the mission select the Consortium for any follow-on implementation. Therefore, no management decision has been reached. This recommendation remains open.*

9. Require IRI, as the lead partner in the Consortium, to submit a Consortium marking and branding plan, and verify that the plan has been implemented.

*The mission has received a Consortium branding and marking plan. The mission will review the plan and verify its implementation through field visits during the remainder of the activity. This action will be completed by July 31, 2011. Based on mission receipt of the Consortium branding and marking plan, a management decision has been reached. This recommendation remains open.*

## **Review of USAID/Afghanistan's Portion of the Embassy Air Program (F-306-11-004-S)**

**Date:** June 9, 2011

**Implementing Partner:** Aircraft Charter Solutions Inc.

**Audit Period:** January 26, 2011, to February 27, 2011 and February 1, 2010, to January 31, 2011

**Funding:** As of March 29, 2011, USAID had obligated approximately \$59 million and expended approximately \$54 million.

### **Background—Summary of Findings**

On January 4, 2010, USAID awarded Aircraft Charter Solutions Inc. a 2-year, \$361 million contract to supply air transportation in Afghanistan. The contractor is providing aircraft, personnel, equipment, tools, material, maintenance, spare parts, and supervision for transportation to and from various locations in the country. The aircraft provided by the contractor includes seven 18-passenger Beechcraft 1900s, three 8-passenger Beechcraft Super King Air 200s, two Bell 412 helicopters, and four MI-8 helicopters.

OIG's review found that the USAID-funded portion of the Embassy Air program is providing safe and reliable air service in support of provincial reconstruction teams and other U.S. Government development assistance programs in Afghanistan; however, the review identified many opportunities for improvement. For instance, between February 2010 and January 2011, 20 percent of passengers (almost 10,000 people) with

reservations on Embassy Air did not appear for their flights but did not cancel 24 hours in advance as required. There was no penalty for these passengers, and with a cancellation system in place, these seats could have been offered to others. Additionally, unapproved international travel by Aircraft Charter Solutions personnel led to more than \$525,000 in questioned costs.

Furthermore, Aircraft Charter Solutions did not provide the mission with required work plans, performance management plans, or progress reports that would detail problems encountered or resolved, best practices, flights or activities completed, or performance standards. Without these reports, the mission was unable to effectively monitor the program.

OIG also noted that USAID markings were missing from all of the aircraft and that environmental requirements for the contract were ambiguous and needed to be updated.

### **Recommendations—Management Decisions**

The audit report made 8 recommendations:

1. Implement a nominal charge for no-show passengers.

The mission did not agree with recommendation 1 for two reasons: 1) the mission estimated that up to 50 percent of no-shows were due to security restrictions and were largely beyond the control of individual travelers. 2) The mission believed that imposing nominal charges on no-show passengers would not be feasible, although the mission did not identify any specific feasibility issues.

The mission also disagreed with our estimate of funds that could be put to better use by reducing the number of no-show passengers. The mission noted that there may be no significant difference in cost between flying a plane that is fully loaded with passengers and one with a number of empty seats.

In response to the mission's first point, OIG undertook an analysis of the reasons for no-shows and determined that only 6 percent of no-shows were due to security restrictions, while 94 percent of no-shows were unrelated to security. In response to the second point, without further details, we do not see any insurmountable obstacles to charging no-show passengers some nominal amount to encourage them to honor their reservations or cancel them as required. Federal travelers on commercial flights are of course already liable for any penalties or other costs that result if they negligently fail to appear for a scheduled flight; we see no reason why this should not be the case for Embassy Air flights as well. We also note that USAID already has collections systems in place to charge employees, contractors, and grantees for personal telephone charges, inadvertent overpayments, and other reasons. A management decision can be reached when the mission and OIG agree on a firm plan of action, with time frames, for implementing the recommendation. This recommendation remains open.

2. Clarify the contract's environmental requirements and obtain evidence that the contractor is complying with them.

The mission agreed with the recommendation. The contracting officer, in collaboration with the mission's environmental officer, will review the contract's environmental provisions to determine how they should be revised. In addition, the mission will ensure compliance with these provisions through enhanced monitoring and evaluation of the contractor's compliance with any environmental requirements set forth in the revised contract provisions or modification. The mission anticipates completion of these actions by August 31, 2011. This recommendation remains open.

3. Determine the allowability of and recover, as appropriate, unsupported questioned costs of \$525,467 representing international travel (including premium-class travel of \$31,902) by contractor officials that was not approved by USAID as required.

The mission is reviewing the circumstances surrounding the international travel to determine the allowability of the unsupported questioned costs of \$525,467 representing international travel (including premium-class travel of \$31,902). The contracting officer has made an initial determination that \$16,302 of the \$31,902 spent for premium-class travel is unallowable and will be recovered.

Allowability of the questioned costs of \$525,467 for unapproved international travel will be determined by the contracting officer. If the amount is determined to be unallowable, a bill of collection will be issued to the contractor, and recovery will be made through a deduction in the next invoice or another appropriate method. The contractor has been told to submit written requests for international travel to the COTR. The mission anticipated completion by June 15, 2011.

A management decision can be recorded when the allowability of the \$525,467 in questioned costs is determined by the contracting officer. This recommendation remains open.

4. Verify that Aircraft Charter Solutions Inc. has implemented a branding and marking plan.

*The mission agreed and instructed the contractor to submit a branding and marking plan for approval on May 9, 2011. In addition, USAID/Afghanistan provided the contractor with appropriate branding and marking materials to initiate compliance with the requirements. Aircraft Charter Solutions Inc. installed tags on various sections of the aircrafts and on furniture and equipment inside the terminal buildings. This recommendation remains open.*

5. Verify that Aircraft Charter Solutions Inc. has provided clear instructions and signs in its terminal for passenger convenience and security.

*The mission agreed and required the contractor to provide clear instructions and make maps more easily available to customers to ensure passenger convenience and security. Appropriate signage was placed in the terminal building; the instructions and maps have been made available to all authorized persons through the Web-based booking system. This recommendation is closed.*

6. Instruct the contractor to provide transportation for passengers from passenger staging areas to the aircraft.

*The mission believed that vehicle traffic would bring foreign objects and debris onto the aircraft ramp, posing a hazard to the aircraft. In addition, the space available for vehicles at the Embassy Air terminal is very limited and the additional vehicles would compound the space situation. Management determined that transportation of passengers from the passenger staging area to the aircraft was not necessary and modified the contract in March 2011 to state: "The contractor will provide vehicles capable of transporting passengers as necessary." This recommendation is closed.*

7. Obtain required reports from Aircraft Charter Solutions Inc.

*The mission concurred and reminded the contractor of its contractual obligations to submit all reports specified in the contract according to the timelines set forth therein. Reports have been submitted by the contractor and accepted by USAID. These reports include an annual program review for the first year of the contract, annual work plan for the second year of the contract, and monthly progress reports. This recommendation is closed.*

8. Clarify its performance standards to Aircraft Charter Solutions Inc. so that realistic expectations and proper reporting and accountability can be obtained.

*The mission did not agree with the recommendation. The mission and the contractor both understood the performance standard "93% of missions completed as scheduled" to mean that the contractor was obligated to maintain a 93 percent on-time mission capability rate, excluding factors outside the contractor's control such as weather, security, and 15 other extenuating circumstances. However, this understanding is contradicted by the wording of the performance standard itself.*

*The mission did require the contractor to develop and submit a performance management plan for approval. The mission planned to monitor compliance with the performance standards and indicators. Thus this recommendation remains open.*

## **Audit of USAID/Afghanistan's Construction of Health and Education Facilities Program (F-306- I I-002-P)**

<b>Date:</b>	March 27, 2011
<b>Implementing Partner:</b>	International Organization for Migration
<b>Audit Period:</b>	September 14, 2010, to November 8, 2010
<b>Funding:</b>	As of September 30, 2010, USAID had obligated approximately \$57 million and expended approximately \$10 million.

### **Background—Summary of Findings**

To help respond to unmet health and education needs in Afghanistan, USAID/Afghanistan entered into a \$57 million cooperative agreement with the International Organization for Migration (IOM) in January 2008, effective through January 2011, to implement the Construction of Health and Education Facilities (CHEF) Program. The agreement was subsequently extended through June 2012.

The objective of the audit was to determine whether USAID/Afghanistan's program was achieving its main goals of strengthening the Government of Afghanistan's ability to provide health services to its citizens and train competent teachers by constructing provincial hospitals, midwife training centers, and provincial teacher training colleges. While the mission has realized some successes—for example, in strengthening the capacity of local construction companies and adhering to the international building code—the program was not on schedule to achieve its main goals. Construction fell significantly behind schedule. The program was approximately 18 months behind schedule and was making slow progress toward achieving its goals. Cost and security issues reduced the scope of new construction. Achievement of the original goals of the agreement was hindered by funding limitations. Federal requirements also were

violated when the mission approved the building of religious structures. IOM's technical proposal clearly indicated that these religious structures would be incorporated into the designs of the provincial teacher training colleges, but USAID staff failed to recognize these structures as being ineligible for USAID funding.

The mission has not yet provided the completed designs for two hospitals and four provincial teacher training centers to the Ministries of Education and Public Health. The completed designs are site specific and include drawings, specifications, design analysis, design calculations, and bills of quantities with adherence to the international building codes and compliance with seismic requirements.

The audit disclosed several instances of noncompliance with IOM's quality control manual, which is incorporated into the cooperative agreement and approved by the mission. The manual required specific tests of construction materials to be performed at specified intervals, but we noted instances where there was no evidence that required tests were performed.

For example, of 49 required seven-day concrete compression strength tests reviewed, IOM could only provide evidence that 35 tests were performed.

Additionally, sustainability of facilities is questionable. The ability of the Ministries of Education and Public Health to maintain the completed structures is questionable because

of competing priorities for ministry funds, which could further hinder achievement of the program's main goals.

## **Recommendations—Management Decisions**

The audit report made 15 recommendations:

1. That USAID/Afghanistan obtain a revised implementation plan from IOM identifying revised completion dates for all structures, recovery actions to increase the speed of construction, potential barriers to timely completion of construction, and actions that could be taken to mitigate delays.

*The mission agrees with the recommendation and has directed International Organization for Migration (IOM) to prepare a revised implementation plan indicating completion dates for all structures and the recovery actions required to mitigate delays. IOM's implementation plan is revised and approved by the Mission annually. The most recent implementation plan revision has been received by the Mission and is currently in review. This action was scheduled for completion by May 30, 2011. This recommendation is closed.*

2. That USAID/Afghanistan extend the agreement with IOM to ensure that the warranty period for all completed structures falls within the agreement period.

*The mission stated that it will extend the Construction of Health and Education Facilities cooperative agreement from June 30, 2012, to June 30, 2013, through the end of the last project warranty period of IOM for the completed structures. The action was scheduled for completion by May 30, 2011. This recommendation is closed.*

3. Review the eligibility of the cost of the prayer buildings and prayer rooms included in the provincial teacher training centers and recover any costs found to be unallowable.

*The mission has required IOM to redesign the women's prayer room into two rooms including a visiting room and living room which is similar to the layout at the men's dormitory. The mission has also halted construction on the mosque structures and advised that it plans to document the recovery of USAID funds disbursed to date for this structure. Action is scheduled for completion by September 30, 2011. A management decision was reached and the recommendation remains open.*

4. Review the eligibility of the cost of the prayer buildings and prayer rooms included in the provincial teacher training centers and recover any costs found to be unallowable.

*The mission planned to issue a notice to all Contracting Officer's Technical Representative (COTRs)/Agreement Officer's Technical Representatives (AOTRs) regarding USAID's policy on funding religious activities by May 30, 2011. This recommendation is now closed.*

5. Develop a process for releasing completed designs.



*In consultation with Regional Legal Advisor, the mission has developed Transfer Agreements for the release of completed CHEF designs to the relevant ministries and other; donors. The Transfer Agreements release USAID of all liability for construction of CHEF designs by others. This action was completed on March 09, 2011. This recommendation has been closed.*

6. Obtain evidence that IOM has standardized its quality control procedures at all construction sites.

*The mission agreed with the recommendation. IOM has demonstrated the use of standardized quality control procedures through continuous revisions that have been made to its Quality Control Manual which is in its seventh revision. IOM's Quality Control and Safety Manager makes regular visits to all construction sites to ensure compliance with the quality control manual revisions. The mission believes that appropriate actions have been taken to address this recommendation. A management decision was reached and the recommendation has been closed.*

7. Obtain evidence that IOM has updated its quality control manual to include all tests performed and acceptance criteria used for quality control.

*As stated above, IOM has revised its quality control manual to include all additional testing that is performed along with the acceptance criteria. This action was completed on November 22, 2010. The recommendation has been closed.*

8. Develop and implement a process whereby the agreement officer's technical representatives verify and review quality control tests.

*The mission agreed with the recommendation that the AOTRs verify and review quality control tests. USAID/Afghanistan's mission order dated July 7, 2010, mandates that USAID construction projects for schools and hospitals be continuously monitored by an independent Quality Assurance/Quality Control (QA/QC) firm reporting directly to the AOTR. The AOTR is responsible for review of QA/QC Reports and for follow up with IOM to resolve deficiencies. This action was completed in late November 2010 when IRD incorporated all quality control testing, test results, and identify deficiencies into the weekly QA/QC reports. This recommendation has been closed.*

9. After preparing an analysis of the Government of Afghanistan's ability to fund maintenance for the structures turned over under the program, USAID/Afghanistan (1) make a determination of the need for a separate operation and maintenance program and (2) revise as appropriate the certification previously prepared for the Construction of Health and Education Facilities Program.

*The mission will obtain the Annual Operations and Maintenance Budgets for all CHEF projects from IOM, submit them to the relevant ministries, and verify that the ministries have adequate funding to operate and maintain the facilities. The mission stated that it will then revise the certification if necessary. This action is scheduled for completion by September 30, 2011. A management decision was reached and the recommendation remains open.*

10. Complete the necessary environmental assessments according to federal regulations.

*The mission agrees to complete environmental assessments for the CHEF projects that are currently under construction by September 30, 2011, in order to determine if existing environmental mitigation plans are sufficient. A management decision was reached and the recommendation is closed.*

11. Provide adequate supervision to reasonably ensure compliance with USAID's environmental procedures.

*The mission agrees with the recommendation to provide adequate supervision to reasonably ensure compliance with USAID's environmental procedures. On November 1, 2010, the mission added a second Mission Environmental Officer position to assist with supervision of USAID's environmental procedures. A management decision was reached and the recommendation has been closed.*

12. Direct IOM to submit a formal marketing plan as required by the agreement.

*IOM submitted a formal marketing plan to the mission for approval on December 12, 2010. A management decision was reached and the recommendation has been closed.*

13. That USAID/Afghanistan determine the adequacy of IOM's marketing plan.

*The mission is currently reviewing the marketing plan and intends to issue a final determination of the acceptability of the plan by May 30, 2011. This recommendation is closed.*

14. Identify and recover the unallowable costs billed to the mission for the use of off-duty Afghan National Police officers.

*The mission stated that based on legal review of the situation that the security guard costs are allowable. The Acquisition Officer's (AO) decision of Oct 21, 2010, was a prudent response to new and misunderstood development in Afghan law. However, since the AO's Oct 21 decision, the mission's understanding of these matters has evolved. Decree 62, issued by President Hamid Karzai on Aug 17, 2010, banned Private Security Contractors (PSCs) and stated that henceforth the Afghan Ministry of the Interior would provide security services. The Regional Legal Advisor has concluded that IOM's Ghazni province arrangement was legal under Afghan law because while Decree 62 prohibited the use of PSCs, the Afghan law on Firearms, Ammunition and Explosives nonetheless continues to permit an organization to use individuals licensed by the IOM to carry firearms to provide their security. Other arrangement in Faryab, while arguably unallowable, is within the AO's discretion to retroactively approve the agreement making the costs allowable. Since the arrangement in Faryab was in fact legal, the AO approved this arrangement as well. The AO will issue a revised ruling to IOM by May 30, 2011. This recommendation is closed.*

15. After identifying all clinics built under a previous USAID construction program that may have a design flaw that creates a fire hazard, we recommend that USAID/Afghanistan notify the Ministry of Public Health and provide a remedy for the design flaw.

*The mission agrees to officially notify the Ministry of Public Health about the potential hazard of the stove chimneys and provide a recommendation for proper installation by May 30, 2011. This recommendation is closed.*

# **Review of USAID/Afghanistan’s Bank Supervision Assistance Activities and the Kabul Bank Crisis (F-306-11-003-S)**

**Date:** March 16, 2011

**Implementing Partner:** Deloitte, BearingPoint

**Audit Period:** September 2005 to January 2011

**Funding:** As of January 31, 2011, USAID had obligated approximately \$47 million for the Economic Growth and Governance Initiative and expended approximately \$112 million.

## **Background—Summary of Findings**

Since 2003, USAID/Afghanistan has supported a number of capacity-building activities at the Afghanistan Central Bank (DAB) to help DAB regulate the banking sector. Currently, Deloitte provided DAB technical assistance in bank supervision and examination through a \$92 million task order for the Economic Growth and Governance Initiative, which includes many activities in addition to bank supervision and examination. The purpose of the task order was to increase Afghanistan's ability to develop and implement sound economic and regulatory policies that provide the foundation for private sector growth in a market economy. According to Deloitte's work plan, one of the main goals of the assistance Deloitte provided to DAB was to assist DAB in fulfilling its statutory responsibilities—to promote the stability and contribution to economic growth of the financial sector and to prevent avoidable losses. Deloitte provided onsite technical advisors at DAB's Directorate for Financial Supervision.

After depositors' run on Kabul Bank, senior officials in the U.S. Embassy raised concerns about Deloitte's performance. Specifically, they were concerned that Deloitte staff did not warn the U.S. Government about

looming problems at Kabul Bank before the first news reports broke in February 2010. They also questioned Deloitte's effectiveness and performance because Deloitte staff had provided bank supervision assistance to DAB for 7 years, yet DAB supervisors were unable to prevent the near collapse of Afghanistan's largest bank. In January 2011, USAID/Afghanistan requested the assistance of the Office of Inspector General (OIG) in determining whether USAID or Deloitte staff members were negligent in failing to report the Kabul Bank fraud.

In response to USAID/Afghanistan's request, OIG conducted this review to determine what opportunities USAID and contractor staff had to learn of fraudulent activities at Kabul Bank through USAID's Economic Growth and Governance Initiative and its predecessor, the Economic Growth and Private Sector Strengthening Activity. The review also sought to determine how staff learned of the fraud and what actions staff members took once they became aware of the fraud.

Audit findings included: BearingPoint and Deloitte advisers who were embedded at DAB encountered fraud indications at Kabul Bank on a number of occasions over a span

of 2 years before the run on Kabul Bank in early September 2010. However, they did not aggressively follow up on indications of serious problems at Kabul Bank. Also, Deloitte advisers did not report fraud indicators at Kabul Bank to USAID, and the mission did not have a policy requiring contractors and grantees to report indications of fraud in host government institutions or possible problems that could reasonably be considered to be of foreign policy interest to USAID and the U.S. Government. It was also determined that USAID/Afghanistan's management of its task order with Deloitte was weak. If senior program managers and technical experts had been on staff at the mission, USAID would have had greater capacity to detect deficiencies in Deloitte's

technical assistance activities, to question Deloitte advisers' written and oral reports, and to delve more deeply into those reports, rather than accepting them at face value.

In hindsight, Deloitte's lead adviser acknowledged that Deloitte should have taken more aggressive actions in November 2009, such as resuming participation by Deloitte's advisers in onsite bank examinations alongside the DAB examiners. This practice was suspended in November 2008 because an adviser received death threats. The lead adviser said that if Deloitte's onsite assistance had restarted in November 2009, the fraud could have been detected earlier, and the magnitude of losses would have been smaller.

## **Recommendations—Management Decisions**

The audit report made four recommendations:

1. Develop and implement an action plan to address the performance issues with the bank supervision and examination assistance provided to the Afghanistan Central Bank by Deloitte.

*USAID/Afghanistan addressed the performance issues with the bank supervision and examination assistance provided to the Afghanistan Central Bank by Deloitte, the Office of Afghanistan and Pakistan Affairs indicated that USAID/Afghanistan has decided to terminate the bank supervision component of the task order with Deloitte. In addition, for any ongoing or future activities with the Central Bank, USAID/Afghanistan will strengthen contractor oversight and ensure that USAID contractors working with the Central Bank (1) adopt a proactive stance in identifying and reporting to USAID fraud, waste, or abuse, (2) educate its personnel and embedded consultants on the unique operating culture and challenges of the Afghan financial sector, (3) engage the Afghan banking system to creatively address problems in light of these challenges, and (4) work with the Central Bank to develop policies on business ethics and train bank staff on these policies. USAID/Afghanistan determined and the RIG/Afghanistan agreed that management decisions have been reached to implement recommendations 1 and 2. In June 2011, USAID/Afghanistan terminated Component 2 of the program under which assistance in the areas of bank supervision and examination was provided to DAB. The mission indicated that as a result of this termination, the award budget was realigned and the amount of the funds budgeted, but not ultimately obligated, was \$92,371,523. Given the termination of the assistance to the Afghanistan Central Bank, the mission deemed that Recommendations 1 and 2 were not actionable. This recommendation is closed.*

2. Arrange for more robust assistance to the Afghanistan Central Bank in bank supervision and examination, including on-site examination assistance and fraud detection training.

USAID/Afghanistan determined and the RIG/Afghanistan agreed that management decisions have been reached to implement recommendations 1 and 2. In June 2011, USAID/Afghanistan terminated Component 2 of the program under which assistance in the areas of bank supervision and examination was provided to DAB. The mission indicated that as a result of this termination, the award budget was realigned and the amount of the funds budgeted, but not ultimately obligated, was \$92,371,523. Given the termination of the assistance to the Afghanistan Central Bank, the mission deemed that Recommendations 1 and 2 were not actionable. This recommendation is closed.

3. Implement a written policy clarifying the responsibilities of USAID contractors and grantees to report on indications of fraud in host-country institutions or other matters that could reasonably be expected to be of foreign policy interest to the U.S. Government.

USAID/Afghanistan accepts the recommendation to work on providing a written policy clarifying the responsibilities of USAID contractors and grantees to report on indications of fraud in host-country institutions as well as on other matters that could reasonably be expected to be of foreign policy interest to the U.S. Government as it applies to Afghanistan. This effort is being led by the Regional Legal Advisor and other concerned offices in USAID. Reporting responsibilities may vary depending on the nature of the project and the type of implementing partners involved. A management decision has been reached and this recommendation remains open.

4. Correct the deficiencies in its management of its bank supervision and assistance activities.

A management decision was reached upon issuance of the audit report. USAID/Afghanistan has been very sensitive to having the proper in-house expertise to manage highly technical activities, and analyze issues related to this area and is fully committed to making the extra effort needed to obtain such expertise. In this regard, USAID/Afghanistan brought on board, a Director of the Office of Economic Growth, a senior financial sector expert to guide USAID's work in the financial sector. Another financial sector expert was appointed in March 2011, to serve as Chief of the Economic Policy and Governance Division. A third senior financial sector expert was appointed to provide direct technical advice to DAB, as well as to manage a newly reformulated bank supervisory assistance activity on a day-to-day basis. With various financial sector experts on board, USAID/Afghanistan believes that it has appropriately corrected the deficiencies in the management of its bank supervision and assistance activities. The mission further stated that if they re-engage in bank supervision and assistance activities in the future, they will ensure that staff with appropriate expertise is designated as program managers. This recommendation is closed.

# Review of Cash Disbursement Practices Employed by Selected USAID/Afghanistan Contractors and Grantees (F-306-11-002-S)

**Date:** March 7, 2011

**Implementing Partners:** N/A

**Audit Period:** November 14, 2010, to December 15, 2010

**Funding:** About \$1.43 billion in awards to contractors and grantees in fiscal year 2010

## Background—Summary of Findings

In late 2001, following decades of conflict, the financial and banking systems of Afghanistan were devastated. Afghanistan had six licensed, state-owned commercial banks that were almost entirely based in Kabul and, to a large extent, inactive. Besides lacking connectivity and reliable information on assets and liabilities, the banks did not follow generally accepted accounting standards. Vital functions of the central bank were not defined or carried out, and Afghanistan lacked a credible, formal payment system. The lack of confidence in the banking system and uncertainties and difficulties faced by the population and the business sector led them to rely almost exclusively on the hawala money transfer system, an informal network of cash brokers who operate based on trust and reputation.

The 10 selected U.S. contractors and grantees represented about 42 percent of USAID/Afghanistan's total active awards (\$3.4 billion) and included six of the mission's program areas: infrastructure, democracy and governance, education, health, economic growth, and stabilization in support of the U.S. Government's counterinsurgency strategy. The risk factors for selection included the size of the award, the type of award, the magnitude of subcontracts or subgrants, the type of

activities financed by USAID, and location of program sites and activities in unsafe areas.

OIG conducted this review to determine whether the cash disbursement practices of the implementing partners ensured that disbursements are reasonable, allocable, and allowable under the agreements.

This review determined that cash expenditures were reasonable, allocable, and allowable. However, no controls can completely eliminate the risk of fraud, loss, and personal harm to staff associated with handling and transporting cash in a war zone.

Using an OIG risk assessment of USAID/Afghanistan's U.S. contractors and grantees, we evaluated internal controls over cash disbursements, performed a walk-through of the cash voucher payment process, reviewed a judgmental sample of cash vouchers and supporting documents, identified areas for improvement, and noted best practices employed.

According to information provided to us by the selected implementing partners, they made \$13.5 million in cash payments in 2010, representing 7 percent of the \$181.1 million in total costs they incurred in

Afghanistan. For individual implementing partners, cash payments as a percentage of total costs incurred in Afghanistan ranged from 2 percent to 69 percent. Partners' total combined cash on hand was \$270,000 at the time of the review. The types of costs paid in cash included office supplies, local travel, prepaid phone cards, utilities, and maintenance. The implementing partners that had a higher percentage of costs paid in cash also used cash for programmatic activities such as small grants, cash-for-work programs, and microfinance loans.

After the review, five of the 10 selected implementing partners took steps to significantly reduce their cash exposure risk by proactively seeking ways to make payments through electronic funds transfer, check, or hawala transfers. The selected implementing partners also implemented a number of best practices for managing cash disbursements that other USAID/Afghanistan implementing partners should consider adopting.

### **Recommendation—Management Decision**

The audit report made one recommendation:

1. Disseminate some best practice precautions to its implementing partners to minimize cash transactions to the extent possible.

*The mission agreed with the recommendation and the Office of Acquisition and Assistance issued a letter in February to all its implementing partners to make them aware of the best practices described in the report. In it, USAID strongly recommended that partner organizations review the best practices observed by the OIG and implement applicable procedures to ensure that USAID-funded cash resources are adequately safeguarded. This recommendation is closed.*

## Audit of USAID/Afghanistan’s Agriculture, Water, and Technology Transfer Program (F-306-11-001-P)

<b>Date:</b>	February 13, 2011
<b>Implementing Partner:</b>	New Mexico State University
<b>Audit Period:</b>	March 3, 2008, to October 25, 2010
<b>Funding:</b>	As of September 30, 2010, USAID had obligated approximately \$16 million and expended approximately \$9 million.

### Background—Summary of Findings

According to USAID/Afghanistan, nearly 80 percent of Afghans earn their living from agriculture. USAID/Afghanistan’s active agriculture and alternative livelihoods programs, with reported obligations of \$701 million and disbursements of \$494 million as of September 30, 2010, are intended to create jobs and increase incomes in the agricultural sector and increase Afghans’ confidence in their government, particularly in the Ministry of Agriculture, Irrigation and Livestock (MAIL). One such program, the Afghanistan Agriculture, Water, and Technology Transfer Program, is implemented through a \$20 million cooperative agreement with New Mexico State University (NMSU).

The objective of this audit was to determine whether the program was achieving its main goals, which dealt with irrigation water management, agricultural technology transfer, and institution building. Two-and-a-half years into the 3-year program, NMSU had achieved a number of successes in introducing new agricultural and water technologies, and many farmers were participating in on-farm demonstrations of these technologies. Auditors found some evidence of demand for these new technologies—laser land leveling being the clearest example—but adoption of the technologies lies in the future.

Financial records for the program showed that about 61 percent of spending was in Afghanistan, while the other 39 percent was in the United States. Officials connected with the program raised concerns that the high proportion of expenditures in the United States left fewer resources available for activities in Afghanistan and raised other questions about the financial management of the program. To address these issues, the OIG contracted with an audit firm to conduct financial audits of NMSU and its partner universities in the United States and issued a separate report with audit results.

The March 2008 cooperative agreement with NMSU also established the following as a program objective: “To develop an institutional framework for effective supply and demand management of the country’s limited water resources—from local watershed management to trans-boundary basins.” The revised program description, dated July 2010, reduced the scope of the work that NMSU was to undertake in water resource governance.

NMSU demonstrated a number of water-conserving technologies and successfully stimulated demand for some of them. However, farmers have not adopted these technologies for wider use, and NMSU



placed relatively little emphasis on improving distribution of irrigation water resources.

NMSU's efforts have not yet resulted in a more equitable, community-based system for managing irrigation water. NMSU officials noted that the water-conserving technologies

they introduced could make more water available for farmers at the tail of irrigation canals. For this to occur, however, the technologies must be widely adopted, and evidence of adoption of these technologies was lacking.

## **Recommendations—Management Decisions**

The audit report made six recommendations:

1. Instruct NMSU to conduct appropriate follow-up activities to determine the effectiveness of its technical assistance and training activities with MAIL.

*A management decision was reached upon issuance of the audit report. On January 10, 2011, USAID/Afghanistan instructed NMSU to conduct follow-up activities to determine the effectiveness of the technical assistance and training it provided to the Ministry of Agriculture, Irrigation and Livestock and instructed NMSU to include the progress of these activities in all future quarterly reports for the program. AOTR verified through a review of documentation provided by NMSU that corrective actions were taken. This recommendation is closed.*

2. Periodically verify the results reported by NMSU for the Agriculture, Water, and Technology Transfer Program.

*The mission stated that the Office of Agriculture is in regular contact with USAID field program officers, who are the "eyes and ears" of the office and report regularly on program activities and accomplishments. The Office of Agriculture confirmed that it periodically sends Kabul staff members to verify reported results and that these visits are documented in trip reports. In addition, the Office of Agriculture officials stated they would ensure that site visits occur at least twice a year, taking into consideration security issues. Final action is expected to be completed by March 31, 2011, upon performance of the next site visit. This recommendation is closed.*

3. Provide NMSU with written definitions of the performance indicators and discuss them with staff members periodically to ensure that the definitions are understood.

*The mission provided written definitions of the performance indicators to Office of Agriculture staff on November 9, 2010. The mission also delivered a PowerPoint presentation on the performance management plan and provided performance measure reference sheets with written measure definitions to Office of Agriculture staff members to ensure that they understood the definitions. A management decision was reached and that the recommendation is closed.*

4. Require New Mexico State University to document challenges and implementation shortfalls in its quarterly reports.

*The mission instructed NMSU to document the challenges and implementation shortfalls in its quarterly reports. In addition, the mission returned the latest draft of the annual report for October 1, 2009, to September 30, 2010, to NMSU with specific instructions to include its*

*challenges and implementation shortfalls. The mission will verify that all future quarterly reports reflect the program's challenges and implementation shortfalls. The recommendation is closed.*

5. Determine the acceptability of the branding and marking plan submitted by New Mexico State University, and after approving some version of the plan, verify its implementation.

*The mission's Development, Outreach, and Communications Office approved the NMSU branding and marking plan on January 4, 2011. The implementation of the branding and marking plan will be verified through field visits during the remainder of the program. Final action was pending on performance the March 2011 field visit. This recommendation is closed.*

6. Perform an environmental assessment for the program and implement any corrective actions that may be required.

*The mission determined and the OIG agreed that a management decision had been reached upon issuance of the audit report. Reference (c) indicates that USAID/Afghanistan submitted an Initial Environmental Examination which was approved by the Bureau Environmental Officer on February 8, 2011. Based on the approved Initial Environmental Examination, the IEE determined that Environmental Assessment is not required for AWATT activity. This recommendation is closed.*

## Review of USAID/Afghanistan’s Ministerial Assessment Process (F-306-11-001-S)

<b>Date:</b>	November 6, 2010
<b>Implementing Partner:</b>	Various GIRoA ministries
<b>Audit Period:</b>	August 31, 2010, to September 16, 2010
<b>Funding:</b>	As of August 31, 2010, USAID had distributed approximately \$19.8 million and expects to deliver at least \$509.4 million to GIRoA ministries.

### Background—Summary of Findings

The U.S. Government expects to deliver 50 percent of its development aid to Afghanistan through the Government of the Islamic Republic of Afghanistan (GIRoA)’s core budget by the end of calendar year 2011. With this expectation, USAID/Afghanistan is conducting a series of pre-award assessments of GIRoA ministries to see whether the ministries can responsibly manage U.S. Government resources.

Our review focused on assessments already performed by USAID/Afghanistan as well as on draft scopes of work for future assessments. Most of the assessments completed to date were based mainly on reviews of written procedures, inquiries of ministry officials, and inspections of a limited number of transactions.

This review was performed to determine whether USAID’s ministerial assessment process provides reasonable assurance of identifying significant vulnerabilities that could result in waste or misuse of U.S. Government resources. The draft scopes of work for future assessments can be strengthened by telling reviewers what program ministries may be asked to manage, assessing the control, expanding coverage of controls over human resources and fixed assets, and providing more detailed guidance

to reviewers on how to assess compliance with applicable laws and regulations.

The review found significant vulnerabilities that could result in waste or misuse of U.S. Government resources. Clearer direction and closer supervision would have helped ensure more thorough reviews. The assessments performed to date did not provide reasonable assurance of detecting significant vulnerabilities.

The scope of the assessments varied from one ministry to another, but some of the significant limitations on the assessments included the fact that, for three of the six assessed ministries, reviewers did not know what programs the ministries would be asked to manage. The reviewers were asked to assess the ministries’ management capacity, but they had no answer to the question “capacity to manage what?” In our opinion, it is difficult—perhaps impossible—to assess a ministry’s ability to responsibly manage USAID programs without understanding the types of USAID programs the ministry will manage and their approximate magnitudes.

Additionally, none of the assessments explicitly considered the control environment in Afghanistan or in individual ministries. The environment in which

ministries are embedded—as well as the environment within individual ministries—can significantly influence the effectiveness of control procedures.

A range of specific actions can be taken by USAID/Afghanistan so that future assessments will provide greater assurance that ministries will be able to manage USAID funds responsibly.

## **Recommendations—Management Decisions**

The audit report made three recommendations:

1. Develop and implement suitable policies, procedures, and practices so that ministerial assessments will provide reasonable assurance of identifying significant vulnerabilities that could result in waste or misuse of U.S. government funds.

*The mission indicated that it had prepared a new statement of work for ministerial assessments which, along with other tools that the mission is using for these assessments, incorporated all of the specific suggestions in our report. The mission has also provided training to responsible staff and has established a procedure that requires the Deputy Director of Office of Financial Management or his/her designee to approve sampling and testing plans. This recommendation is closed.*

2. Make appropriate modifications to the scopes of work for future ministerial assessments as outlined in this report.

*The mission developed a new statement of work and made available additional tools for conducting ministerial assessments that incorporate the specific suggestions in our report. This recommendation is closed.*

3. Rely on joint donor assessments of host government ministries to the degree that they meet USAID's needs.

*USAID/Afghanistan determined and the OIG/Afghanistan agreed that a management decision had been reached to implement the recommendation. USAID/Afghanistan stated that it intends to rely on joint donor assessments to the degree that they meet USAID's needs and undertake additional assessment work if necessary. This recommendation is closed.*

# Audit of USAID/Afghanistan's Support to the American University of Afghanistan (5-306-11-002-P)

<b>Date:</b>	November 5, 2010
<b>Implementing Partner:</b>	The American University of Afghanistan
<b>Audit Period:</b>	May 5, 2010, to June 1, 2010
<b>Funding:</b>	As of April 30, 2010, USAID/Afghanistan had obligated approximately \$13 million and expended approximately \$11 million.

## Background—Summary of Findings

The American University of Afghanistan (AUAf) was officially chartered under the Afghan Constitution and Civil Code in July 2004 as a private institution of higher education.

The university's mission is to provide a high-quality education that meets international standards and emphasizes a liberal arts curriculum and higher education for the professions. To assist in the development of AUAf, USAID/Afghanistan entered into a \$42 million cooperative agreement with the university in August 2008.

The objective of the audit was to determine whether USAID/Afghanistan's support to the American University of Afghanistan was achieving its main goals of increasing student enrollment; improving the school's infrastructure; increasing the number of qualified staff; reforming the undergraduate curriculum; and enhancing the university's ability to become self-sustaining.

The audit found that the university has already achieved its goal of increasing the number of qualified staff, thus meeting the end-of-program target. However, AUAf has not made progress in reforming the undergraduate curriculum or enhancing the

university's ability to become self-sustaining. AUAf is behind schedule in reforming its undergraduate program. While the university has developed additional courses and a bachelor's degree with concentrations in business, information technology, and social sciences, it has not developed the curricula for three individual bachelor's degrees, as required under the agreement

The audit found other problems as well. The university was not in compliance with agreement terms—as it had not submitted its required Year 2 budget, Year 2 work plan, and performance management plan—and as a result, the mission was withholding incremental funding.

Additionally, the university's Professional Development Institute will not meet its financial contribution goal. The university may not meet its goal of increasing enrollment of women to 30 percent. The undergraduate preparatory program was not preparing students adequately to become undergraduates.

University contracting was deficient and did not consistently document its competitive bidding process. Items funded by USAID were not marked as having been provided by

the U.S. taxpayer. Finally, environmental procedures were not followed in construction

of the new campus or in renovations of existing facilities.

## **Recommendations—Management Decisions**

The audit report made 18 recommendations:

1. Continue to withhold incremental funding until all required documents are submitted by the University.

*The mission agreed with this recommendation. A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that the AUAf has submitted and the mission has approved the required documents. This recommendation is closed.*

2. Work with the university to establish procedures for timely submission of the annual budget.

*The terms of the cooperative agreement require AOTR approval of the AUAf budget on an annual basis and by October 30 of each year. However, the university's fiscal year began on July 1 and the Board of Trustees reviewed the university's proposed annual budget prior to July 1. This recommendation is closed.*

3. Work with the university to establish procedures for timely submission of the annual work plan and performance management plan.

*The mission stated that AUAf planned to submit its draft annual work plan and revised performance management plan (if necessary) by March 31, 2011, along with the discussion draft of its annual budget. The AUAf cooperative agreement was modified by December 15, 2010, to reflect this new budget, work plan, and performance management plan approval process. This recommendation is closed.*

4. Determine how excess funds, estimated at \$6.4 million, will be put to use within the agreement or other mission programs.

*The mission has determined that the excess funds of \$6.4 million from Year 1 and 2 will be reprogrammed into Years 3–5 to fund activities intended by the award. A management decision was reached and this recommendation was closed.*

5. Review whether to approve subcontracts entered into by the university that has not been approved by the mission.

*The mission's Office of Acquisition Assistance, in consultation with the agreement officer's technical representative, will provide consent to subcontract all firm fixed price contracts over \$100,000 and all cost-reimbursement contracts, which are funded with mission funds. This recommendation is closed.*

6. We recommend that USAID/Afghanistan prepare a sustainability plan so that the university will not be dependent on mission funding after the end of the program.

*A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that AUAf's Board of Trustees approved a five-year strategic plan in August 2011. Sustainability is addressed in the plan which also includes notional budget scenarios for the period 2011-2016 and scenarios on cessation of USAID/Afghanistan funding by June 2013. The mission reviewed the status of the strategic planning process and budget scenarios to assess the impact of cessation of the mission's investments in AUAf in 2013 and the reasonableness of other income projections. Given the United State Government's overarching commitment to support the concept of an U.S.-style university in Afghanistan, it is possible that the mission may deem it strategically important to continue support to AUAf beyond 2013. A final determination on any possible USAID support to AUAf beyond the current grant period will be made by the mission by December 2011. This recommendation is closed.*

7. Work with the university in developing a construction implementation plan for its new campus.

*The AUAf administration has determined that USAID funds will not be used for the construction of its new facilities. Modification to the agreement to reflect that USAID will not be involved in the approval of any further new campus construction activities is expected to be completed by December 15, 2010. This recommendation is closed.*

8. Work with the university to complete a four-year curriculum for the three undergraduate degrees identified in the agreement.

*A management decision was reached upon issuance of the audit report. AUAf conducted an extensive review of its undergraduate program offerings and several revisions were made to ensure that AUAf's programs aligned with market demand for university graduates in both the public and private sectors. As a result, the General Studies degree was phased out. The reformulated degree programs are as follows: Bachelor of Arts in Business Administration, Bachelor of Science in Computer Science, and Bachelor of Arts in Political Science and Public Administration. Curricula have been developed and are included in the AUAf Course Catalog for the academic year 2010-11 and have been incorporated into the AUAf budget, work plan, and draft performance management plan. In AUAf's Year 3 budget and draft annual work plan, all matters related to adequately funding the three new undergraduate programs were addressed. This recommendation is closed.*

9. Require the university to develop a business plan for the Professional Development Institute Program.

*A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that AUAf has developed and USAID/Afghanistan has reviewed a business plan for the Professional Development Institute program. The plan has been incorporated into AUAf's Year 4 budget, work plan, and performance management plan. This recommendation is closed.*

10. Modify the agreement to add a business manager position for the Professional Development Institute.

*The mission stated that the university is preparing a business plan for the Professional Development Institute. Staffing qualification requirements are expected to be addressed in this plan. The mission and the university discussed the qualification requirements for senior-level institute staff. This recommendation is closed.*

11. Develop an implementation plan for the Professional Development Institute that will address deficiencies in program quality.

*A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that AUAF has AUAF's draft performance management plan was revised to include learning achievement indicators where practical, as well as other quality standards such as attendance requirements. AUAF's draft performance management plan was reviewed and commented on by the Mission on several occasions to ensure that quality standards for Professional Development Institute learners were included. Final Mission approval of the Professional Development Institute Implementation Plan as part of the performance management plan was provided on August 25, 2011. This recommendation is closed.*

12. Require that the action plan developed to increase the proportion of women enrolled at the university be incorporated into key program planning documents.

*A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that AUAF incorporated its female students recruitment plans into its Year 3 work plan for 2010-2011 and set targets for the next three years. In addition, AUAF submitted a formal action plan for recruitment of female students to the Mission on September 25, 2010, in line with the 2010-11 work plans and budget as well as the performance management plan. The Mission recommended further analysis and gender-equitable approaches be incorporated into the female enrollment action plan. AUAF submitted a revised female enrollment plan in January 2011 that the Mission deemed acceptable in February 2011 after further revisions. The Mission recommended that the action plan be updated on an annual basis in line with the submission of the annual budget and implementation plan. This recommendation is closed.*

13. Develop a plan to improve the university's undergraduate preparatory program.

*A management decision was reached upon issuance of the audit report. The referenced memorandum indicates that AUAF has developed and USAID/Afghanistan has reviewed an implementation plan that includes the restructuring of the Foundation Studies Program and that this plan was reflected in the annual work plan, budget and performance management plan. This recommendation is closed.*

14. Review the university's procurement system, as required by the agreement.

*The mission's Office of Acquisition and Assistance has prepared a plan regarding the steps it will take in performing the review of the university's procurement system. This recommendation remains open.*

15. Review procurement files before approving construction subcontracts in order to verify that adequate competition existed during the bidding process.

*The mission has proposed a process by which all subcontractor construction procurements will be reviewed and approved by the mission prior to the commencement of work. This plan includes the review of any procurements that are funded in whole or part with USAID funds totaling more than*



*\$100,000 as well as all cost-reimbursement contracts. The review is expected to take place by September 30, 2010. This recommendation remains open.*

16. Evaluate the university's branding and marking plan and make a determination as to the acceptability of the plan.

*The mission has evaluated the university's May 2010 revised branding and marking plan and determined that it was unacceptable. The university has provided an additional branding and marking plan, which the mission is reviewing. This recommendation was closed.*

17. Establish procedures for the submission of environmental mitigation and monitoring plans for new construction.

*The mission has established a process for the submission of Year 3 environmental mitigation and monitoring plans for renovation work to be done on existing university structures.*

*Additionally, the university understands that after October 1, 2010, no construction or renovation projects using USAID funds can begin when the agreement officer's technical representative approves the environmental mitigation and monitoring plan for the project. Previously, AUAf has completed six construction and renovations projects without submitting an environmental mitigation and monitoring plan as outlined by the agreement. This recommendation is closed.*

18. Obtain a written legal decision from the mission's regional legal advisor on how to proceed for completed and in-process projects for which environmental procedures were not followed.

*The mission has obtained a written legal decision from the regional legal advisor on how to proceed for completed and in-process projects in which environmental procedures were not followed. This recommendation is closed.*

# **Audit of USAID/Afghanistan’s Partnership for Advancing Community-Based Education in Afghanistan (PACE-A) (5-306-11-001-P)**

**Date:** October 28, 2010

**Implementing Partners:** CARE International (CARE), Catholic Relief Services (CRS), International Rescue Committee (IRC), and the Aga Khan Foundation (AKF)

**Audit Period:** April 10, 2006, to March 31, 2010

**Funding:** As of March 31, 2010, USAID had obligated approximately \$24.8 million and expended approximately \$17.8 million.

## **Background—Summary of Findings**

The Partnership for Advancing Community-Based Education in Afghanistan (PACE-A) is a 5-year program to expand quality learning and life opportunities for marginalized communities and their children in Afghanistan. The program’s core objectives are: to expand access to community-based schools, strengthen community structures and processes that support basic education, and improve the quality of community-based education. Under this agreement, the program’s activities were expected to directly benefit a total of 93,240 students—of whom at least 60 percent were to be girls or women—in over 1,000 communities in 90 districts and 20 provinces.

Although the majority of these activities involve primary education classes covering grades 1 through 6, the program also offers other types of classes, including early childhood development and adult literacy, for learners younger or older than primary school age (7 to 12 years old).

The audit determined that the program was partially achieving its goals but was not offering its teachers the basic training to ensure that their students received a quality education. Results data reported on this and other program areas also were not adequately

supported. In addition, efforts to integrate the program’s primary classes into the Ministry of Education system were not always implemented effectively. Through its community-based activities, PACE-A has provided educational opportunities to children living in rural villages in different regions of Afghanistan.

According to PACE-A’s progress report for the quarter ending March 31, 2010, program activities to date had resulted in the establishment of 3,695 classes attended by 98,212 students—the majority of whom were girls—in a total of 1,672 communities located in 97 districts and 19 provinces, meeting or exceeding at least some of the program’s targets. The program has also made progress in facilitating the integration of many of its classes into the Ministry of Education system, with 51 percent of the program’s primary classes integrated into the school system to date.

PACE-A has not been fully achieving all of its core objectives, however. One area in which program efforts have fallen short has been teacher training, which is the primary means of ensuring that PACE-A supported students receive a quality education.

An examination of the records for four tested provinces also disclosed that data reported under several performance measures relating

to teacher training and other activities were not adequately supported, partly because of recordkeeping deficiencies.

## **Recommendations—Management Decisions**

The audit report made four recommendations:

1. That USAID/Afghanistan direct CARE International to (1) develop clear standards on teacher training, to be followed by all four partners, which define the requisite training workshops that each teacher must receive to be considered fully prepared to teach his or her students; and (2) develop and implement a plan to ensure that all supported teachers receive the requisite training in its entirety.

*USAID/Afghanistan determined and OIG agreed that a management decision had been reached upon the issuance of the audit report. Reference (b) indicates that USAID/Afghanistan directed CARE International to develop a standard teacher training package based on the needs of community-based education teachers. The mission indicated that CARE has taken the appropriate actions to fully implement the recommendation. This recommendation is closed.*

2. That USAID/Afghanistan direct CARE International to carry out the data quality assurance procedures specified in its performance monitoring plan, which include random field visits at least quarterly to verify the quality of the data furnished by field staff and reported to USAID.

*On July 28, 2010, CARE agreed to conduct data quality assurance procedures regularly as specified in its performance monitoring plan. This includes the conduct of spot checks on a quarterly basis to verify the quality of the data reported against source documentation at field offices. This recommendation is closed.*

3. That USAID/Afghanistan conduct a data quality assessment in accordance with USAID's Automated Directives System to provide assurance on the quality and reliability of the program's reported results data.

*USAID/Afghanistan's AOTR organized and participate on a team that performed a Data Quality Assessment (DQA). The DQA was carried out using USAID's standard DQA checklist contained ADS 203.3.5 adapted to the PACE-A information system. After the DAQ was performed, the team visited the CARE office to verify that data was correctly entered into the database from the paper-based reports. The DQA team determined that all five standards (validity, reliability, accuracy, completeness, and integrity) were put in place and were operational at the various organizational levels of the PACE-A project, producing good quality data. This recommendation is closed.*

4. That USAID/Afghanistan direct CARE International to (1) develop a formal class integration strategy and a process that allows for the effective integration of the program's primary education classes into the Ministry of Education's school system and provide a viable alternative that allows children to continue their learning without having to travel long distances; and (2) implement this integration strategy for all new and, if possible, formerly integrated classes by the program's completion date.

*The mission directed CARE International to develop a formal integration strategy and a process that allows for integrating community-based education classes into the Ministry of Education's primary school system. This recommendation is closed.*



# Afghanistan Performance Audits

## Fiscal Year 2010

### Review of Security Costs Charged to USAID Projects in Afghanistan (No. 5-306-10-002-S)

<b>Date:</b>	September 29, 2010
<b>Implementing Partner:</b>	Development Alternatives, Inc.
<b>Review Period:</b>	March through May 13, 2010
<b>Funding:</b>	\$11.3 million

#### Background—Summary of Findings

USAID/Afghanistan relies on private security contractors (PSCs) to supply an array of security services for contractors and grantees that implement USAID-funded projects in Afghanistan. PSCs free up military forces for their core missions and provide protection to USAID's implementing partners in hostile environments. USAID/Afghanistan's practice has been to delegate responsibility and oversight for security to its implementing partners and factor the cost of security into their program budgets. These implementing partners typically subcontract their security services to PSCs. USAID indirectly pays for PSCs when the implementing partners submit their invoices, which include the cost of security services, for payment.

In the past year, news reports have said that U.S. Government funds paid to contractors for reconstruction projects were being siphoned off to Taliban insurgents in exchange for "protection" to prevent attacks. For example, one news article reported that USAID funds were ending up in the hands of the Taliban through a protection racket for contractors. Another article said that in southern Afghanistan, no contract can be implemented without the Taliban taking a cut, sometimes at various steps along the way.

Other news reports said that PSCs were involved in the negotiations with insurgents. (OIG) staff met with one of the reporters involved to obtain additional details.

OIG conducted a review of Edinburgh International's security costs charged to the following three USAID-funded projects in Afghanistan implemented by Development Alternatives, Inc. (DAI):

- Afghanistan Small and Medium Enterprises Development
- Incentives Driving Economic Alternatives for the North, East, and West
- Local Governance and Community Development (LGCD)

The review found no indication that Edinburgh International had misused USAID funds to pay the Taliban or others in exchange for protection. However, there were indications that Afghan subcontractors working on the LGCD project had paid insurgents for protection in remote and insecure areas of Afghanistan. The payments were allegedly made as part of a security arrangement with local communities that very likely included the Taliban or groups that

support them. OIG also found indications of pervasive fraud in DAI's LGCD office in Jalalabad and indications of endemic corruption in Nangarhar Province, where Jalalabad is located. It is conducting an investigation with members of the International Contract Corruption Task Force, including the Special Inspector

General for Afghanistan Reconstruction and the Federal Bureau of Investigation, as well as the local Afghanistan prosecutor's office and the Afghanistan Major Crimes Task Force. In June 2010, DAI terminated ten LGCD employees who were involved in the fraud scheme.

## **Recommendations—Management Decisions**

The review report made four recommendations to help USAID/Afghanistan reduce the likelihood that subcontractors will misuse USAID funds to pay off Taliban insurgents or other criminal elements and to mitigate the risk of fraud within its LGCD project.

1. That USAID/Afghanistan conduct appropriate risk and impact assessments of current and proposed locations that are targeted for Local Governance and Community Development subprojects to determine whether the security environment in those locations is permissive enough to allow civilian implementation and monitoring efforts to proceed without interference from insurgent groups.

*The mission stated that we had reported indications of pervasive fraud in DAI's LGCD Jalalabad office, as provided by interviewed sources, but did not list supporting documentation for the alleged fraud. Nonetheless, the mission indicated that the contracting officer has directed DAI to conduct an internal audit of all offices under the LGCD Project.*

*It is OIG policy not to provide information in its published reports that would compromise investigations of suspected fraud. Instead, this information is provided to OIG/Investigations for further investigation. As indicated in the draft report, we referred the specific indications of pervasive fraud in LGCD's Jalalabad office to OIG/Investigations, which expanded an ongoing investigation of the LGCD fraud and worked with members of the International Contract Corruption Task Force, including the Special Inspector General for Afghanistan Reconstruction and the Federal Bureau of Investigation, as well as the local Afghanistan Prosecutor's Office and the Afghanistan Major Crimes Task Force. In June 2010, DAI terminated ten LGCD employees who allegedly had been involved in the fraud scheme. Because USAID/Afghanistan has directed DAI to conduct an internal audit of the offices implementing the LGCD project, final action has been taken. This recommendation is closed.*

2. That USAID/Afghanistan direct Development Alternatives, Inc., to conduct an internal audit of all offices under the Local Governance and Community Development Project to evaluate internal controls and take appropriate corrective actions on any material weaknesses identified and fraud uncovered. A copy of the report is to be provided to the USAID/Afghanistan Controller and the OIG.

*The Contracting Officer directed DAI to conduct an internal audit of all offices under the LGCD Project to evaluate internal controls and take appropriate corrective actions on material weaknesses identified and fraud uncovered. DAI is in daily contact with the RIG Office at the USAID Mission in Kabul on alleged improprieties and information is passed rapidly – currently between 24-72 hours of notification between both USAID activity managers and DAI directly to the OIG. USAID expatriate and national staff have reinforced their efforts to report alleged cases of improprieties reported either by local communities, or from*

*GIRoA directly to the COTR for immediate investigation. The COTR has sent guidance to all activity managers to meet with their local DAI implementers at least on a weekly basis. The COTR and Alternate COTR are immediately moving information received either from USAID/LGCD activity managers, and DAI to the OIG for review and preliminary guidance. This recommendation is closed.*

3. That USAID/Afghanistan direct Development Alternatives, Inc., to implement policies and procedures to perform adequate cost analysis of fair market prices and to detect and prevent inflated costs and possible fraudulent activity as part of its subcontracting process for the Local Governance and Community Development Project.

*USAID's contracting officer directed DAI to review its existing procurement policies and procedures, modify them accordingly, and implement them to ensure that it performs adequate cost analysis of fair market prices and to detect and prevent inflated costs and possible fraudulent activity as part of its subcontracting process for the LGCD Project. This recommendation is closed.*

4. That USAID/Afghanistan develop an action plan to maintain a sufficient level of oversight of subcontracting and purchasing systems by Development Alternatives, Inc., for the Local Governance and Community Development Project.

*USAID requested that DAI conduct a contractor purchasing system review, to establish a baseline for DAI's proficiency in performing its responsibilities in subcontracting in accordance with FAR 44.3. The review provides a baseline assessment of DAI's capacity and documents weaknesses for further action by the contracting officer or his or her field support team. USAID also reported that it plans to conduct periodic surveys of DAI's purchasing system. This recommendation is closed.*



## **Audit of USAID/Afghanistan's Alternative Development Program Expansion—South West (5-306-10-011-P)**

**Date:** July 29, 2010

**Implementing Partner:** Associates in Rural Development, Inc.

**Audit Period:** March 5, 2008, to December 31, 2009

**Funding:** As of December 31, 2009, USAID/Afghanistan had obligated \$30 million and disbursed \$25 million for program activities

### **Background—Summary of Findings**

The production and trafficking of illicit narcotics in Afghanistan breeds corruption and provides resources to the Taliban, drug lords, and other terrorist groups. The U.S. Government has supported the Afghan Government's counternarcotics strategy of providing incentives to stop growing opium poppy through alternative development projects, supporting strong disincentives in the form of provincial governor-led eradication, interdiction, and law enforcement, and spreading the antinarcotics message.

USAID is implementing a 3-year, \$75 million program (through Associates in Rural Development) to counter illicit poppy cultivation by providing alternative development programs, improved economic opportunities, and diverse regional economic growth.

The program has made progress. A 32 percent decrease in poppy production between 2008 and 2009 has been attributed to strong antipoppy messages from provincial governors, increased interdiction activities, an overproduction of poppy in prior years that suppressed market prices, and provision of alternative economic opportunities in targeted

districts within each province. The implementer put in place 45 cash-for-work projects that included road, canal, and market rehabilitations. One project provided employment to 220 workers, while another project targeted 30 disadvantaged women, mainly widows. The program also assisted local farmers with sales of produce totaling nearly \$3.8 million. Further, it helped the Farah Farmer's Union, a cooperative of 8,700 growers, identify business opportunities and develop the Farah Agricultural Center, which will provide an all-inclusive hub for market expansion and business development.

Despite the program's progress, issues need to be addressed. First, continued reductions in poppy cultivation may not be sustainable because no follow-on alternative development program has been approved beyond March 2011, and a critical southern province is not included in the current program. Second, the program has experienced delays in implementation, partly because of security issues. Also, a new embassy-led annual program review process, the restructuring of the regional commands, and the mission's plan to implement regional platforms present future challenges that could hamper program implementation if not properly managed.

## Recommendations—Management Decisions

The audit report made three recommendations:

1. That USAID/Afghanistan develop an implementation plan for follow-on activities to cover critical southern and western provinces.

*In January 2010, the Office of Agriculture began developing follow-on agriculture programs to deliver alternative development activities in the southern and western provinces. This recommendation is closed.*

2. That USAID/Afghanistan officially designate a specific position within each technical office to handle the preparation and coordination of embassy program approval requests.

*USAID took three steps to further improve the project review process. First, it designated one officer in the Office of Program and Project Development (OPPD) to be responsible for preparing and coordinating all project reviews. Second, the OPPD officer in charge of the project review process was made responsible for directly coordinating upcoming reviews with the technical office director, who is accountable for ensuring that the office's relevant contracting officer's or agreement officer's technical representative completes the review sheet promptly. Third, in June 2010, the designated officer in OPPD conducted an extensive inventory of all mission programs to determine which programs are due for a 1-year review and, on the basis of this inventory, established a specific schedule for upcoming reviews. This recommendation is closed.*

3. That USAID/Afghanistan require an activity manager designation letter for all activity managers, outlining responsibilities and relevant mission orders related to making unauthorized commitments and funds control violations.

*On September 22, 2010, USAID/Afghanistan issued a Mission Order that outlined the roles and responsibilities of activity managers in USAID/Afghanistan's project monitoring and included a sample activity manager designation letter. This recommendation is closed.*

# Review of School and Health Clinic Buildings Completed Under the Schools and Clinics Construction and Refurbishment Program (No. 5-306-10-002-O)

<b>Date:</b>	June 24, 2010
<b>Implementing Partner:</b>	KPMG Afghanistan
<b>Audit Period:</b>	2002 to 2009
<b>Funding:</b>	Disbursements under the program amounted to more than \$105 million

## Background—Summary of Findings

In September 2002, USAID/Afghanistan began to build and reconstruct schools and health clinics throughout Afghanistan under the Schools and Clinics Construction and Refurbishment Program. During the following 4 years, the mission increased the number of structures subject to the program from fewer than 100 to 776. Similarly, the number of implementing partners grew to more than a half dozen, and disbursements under the program amounted to more than \$105 million.

In October 2004, the OIG audited the school and health clinic reconstruction activities.<sup>1</sup> The audit found that the program was behind schedule, and it recommended that the mission develop a new implementation plan.

RIG/Manila contracted with KPMG Afghanistan—whose staff could travel more easily within Afghanistan—to conduct site visits for this review. OIG provided KPMG a statistical sample of 50 buildings—30 schools and 20 clinics—from the 776 schools and clinics completed across Afghanistan under the program. The review had two objectives: (1) to determine whether schools and clinics constructed under the program were being

used for their intended purposes and (2) to measure the impact of the program on the provision of education and health services to the people of Afghanistan.

KPMG visited and inspected 50 buildings to verify their physical existence and observe how they were being used. Overall, KPMG found that 48 of the 50 facilities were being used for their intended purposes. The two exceptions were due to security concerns in the surrounding area and one building's inability to accommodate area students.

KPMG noted numerous physical deficiencies in the condition of the school and health clinic buildings. These deficiencies included structural problems, poor hardware, lack of electrical supply (because buildings were located in areas where electrical service is unavailable), deficient water service and plumbing (or none), and toilet problems. However, KPMG could not determine whether the deficiencies were attributable to work performed under the program or to a subsequent lack of maintenance.

KPMG noted that the deficiencies created an environment that was not conducive to quality education and health services and might expose the students, patients, and staff working in those buildings to unhealthy and

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<sup>1</sup> "Audit of USAID/Afghanistan's School and Clinic Reconstruction Program," Audit Report No. 5-306-05-003-P, issued March 14, 2005.

even dangerous conditions. In addition, the report noted operational problems in the schools and clinics. These problems included poor maintenance, inadequate personnel, and lack of furniture and equipment. These conditions, however, were the responsibility of the Government of Afghanistan.

To measure the impact of the program on providing educational and health services to the people of Afghanistan, KPMG scheduled its field visits when the schools and clinics would be in use and reviewed records and

documentation maintained at each location. KPMG found that the 30 schools visited were staffed with 1,385 teachers providing instruction to 57,744 students. The 20 health clinics visited employed 109 clinical staff and provided medical treatment to approximately 39,500 patients a month. KPMG concluded, however, that these figures do not provide a meaningful indication of the completed buildings' impact on the provision of education and health services in Afghanistan because baseline information was not available for comparison.

### **Recommendations—Management Decisions**

The report made two recommendations:

1. That USAID/Afghanistan consider requesting from the Ministry of Education and the Ministry of Health a list of schools and clinic buildings completed under the Schools and Clinics Construction and Refurbishment Program that are not being used for intended purposes and make a determination in coordination with these ministries whether adjustments in the use of these facilities can or should be made.

*Ninety-six percent (48 of 50) of the buildings inspected under the OIG's review were found to be used for the original intended purpose. These results are consistent with the results of post occupancy evaluations conducted by International Relief and Development at the mission's request in 2007. These evaluations determined that most of the buildings sampled were being used for their original intent. This recommendation is closed.*

2. That USAID/Afghanistan evaluate the physical and construction deficiencies identified in annexures C and D of the KPMG report and develop an action plan to correct those deficiencies.

*The mission agreed that deficiencies that are the result of defects in construction, and in particular those defects that could impact life or safety, need to be corrected. The mission is inspecting all buildings funded and constructed under the program between 2002 and 2009 for seismic structural safety. As the inspection of each building is completed, an action plan will be developed for remedial reconstruction for earthquake safety. This recommendation is closed.*

# **Audit of USAID/Afghanistan's Oversight of Private Security Contractors in Afghanistan (5-306-10-009-P)**

**Date:** May 21, 2010  
**Implementing Partner:** Not applicable  
**Audit Period:** October 1, 2006, through June 30, 2009  
**Funding:** \$167 million for subcontracted private security services

## **Background—Summary of Findings**

USAID program implementers rely on private security contractors (PSCs) to protect their operations in hostile environments. However, the murder of 4 PSCs in Iraq in 2004 and the killing of 17 Iraqi civilians by PSCs in 2007 raised concerns about failures to supervise PSCs adequately and to properly investigate alleged killings by security contractors. In January 2008, Congress enacted detailed oversight requirements for PSCs in combat operation areas, to be implemented by Department of Defense (DOD) regulation and the Federal Acquisition Regulation.

OIG examined the reporting of serious security incidents, whether USAID implementing partners had subcontracted with responsible firms, the costs of these services, and the oversight of those costs. We found that detailed statutory oversight requirements intended to cover both non-DOD and DOD PSCs in Afghanistan had not been implemented by USAID because the Chief of Mission had not issued mission-wide instructions in accordance with DOD implementing regulation. As a result, USAID PSCs did not report certain serious security incidents (e.g., persons killed or injured as a result of PSC conduct) that they otherwise would have been required to report had mission-wide instructions implementing the

statutory requirements been issued. The mission-wide instructions would have also incorporated statutorily-mandated procedures to ensure PSCs in Afghanistan are qualified and responsible. The report found such procedures were not in place.

USAID/Afghanistan has provided only limited oversight and direction relative to standards and requirements for security and cannot ensure that responsible security firms are employed. The audit found that two PSCs were not licensed with the Afghan Government and that USAID/Afghanistan did not provide subcontracting consent for 17 private security firms or include in its contracts a clause to require various security measures. Moreover, USAID/Afghanistan has no standard grant award provision related to security, so about one-third of its awards with subcontracted PSCs have no standard security requirements. With respect to security costs, prime implementing partners reported that they had charged about \$167 million for subcontracted PSC services during the review period. On average, these services accounted for 8.3 percent of award disbursements. The audit found no specific requirements applicable to this category of costs and few requirements relative to the audit of subcontractor costs.

## Recommendations—Management Decisions

OIG made eight recommendations:

1. That, in the absence of mission-wide instructions, USAID/Afghanistan's Director of Acquisition and Assistance include a clause or provision in all acquisition and assistance agreements to require the implementing partner to report information on casualties as well as serious incidents.

*USAID/Afghanistan's Office of Acquisition and Assistance is coordinating additional reporting requirements with USAID/Washington's Management Bureau's Office of Acquisition and Assistance. The additional standard provisions or clauses in agreements are subject to the Paperwork Reduction Act and require approval by the Office of Management & Budget. Upon approval of the standard provisions or clauses, USAID will modify the acquisition and assistance agreements accordingly. This recommendation is closed.*

2. That, in the absence of mission-wide instructions, USAID/Afghanistan devise and implement a formal process, consistent with standards specified in 39 CFR 159.6, for its employees to forward reports of serious incidents and casualties to a designated office that will collect and coordinate the reports.

*In July 2009, the mission established an in-house Office of Safety and Security to, among other duties, coordinate the reporting of serious incidents and casualties. Serious incident reporting has increased, as has general cooperation on security issues with the implementing partners. The mission will formalize the process through a mission order for employees to forward reports of serious incidents and casualties to the designated office. This recommendation is closed.*

3. That USAID/Afghanistan's Director of Acquisition and Assistance provide written notification to the implementing partners responsible for the two awards directing them to use only private security contractors licensed by the Government of the Islamic Republic of Afghanistan.

*USAID/Afghanistan indicated that one of the awards has since ended. The Contracting Officer for the other award has provided written instructions to the Implementing Partners and Contracting Officers Technical Representatives, directing them to use only licensed private security companies that are legally registered with the Government of the Islamic Republic of Afghanistan. This recommendation is closed.*

4. That USAID/Afghanistan's Director of Acquisition and Assistance require that the implementing partners—to which the 17 private security companies (identified in the audit report) have been subcontracted—provide what would customarily be advance notification to USAID/Afghanistan so that consent to subcontract may be considered and granted or refused.

*USAID/Afghanistan indicated that one of the awards has since ended. The Contracting Officer for the other award has provided written instructions to the implementing partners and COTRs, directing them to use only licensed private security companies that are legally registered with GIRA. On April 25, 2010, the Supervisory Contracting Officer, Afghanistan sent a written notice to the implementing partners stating that they are required to provide the customary advance notification to*

*USAID/Afghanistan, so that the cognizant contracting officer can provide consent to subcontract. This recommendation is closed.*

5. That USAID/Afghanistan's Director of Acquisition and Assistance issue written guidance to existing implementing partners and the office's contracting officers, reminding them of the requirements of Federal Acquisition Regulation Part 44.2.

*On April 25, 2010, USAID/Afghanistan's Director of the Office of Acquisition and Assistance issued written guidance to the existing implementing partners and the office's contracting officers reminding them of Federal Acquisition Regulation Part 44.2 requirements. This recommendation is closed.*

6. That USAID/Afghanistan's contracting officer add Federal Acquisition Regulation Clause 52.225-19, "Contractor Personnel in a Designated Operational Area or Supporting a Diplomatic or Consular Mission Outside the United States," to all its existing acquisition awards and issue guidance to include the clause in future awards.

*USAID/Afghanistan's Office of Acquisition and Assistance reported that it would review its active acquisition awards and ensure that the required clause is included in the awards. Additionally, the mission indicated that the Office of Acquisition and Assistance Director will issue guidance to the contracting officers, directing them to include the clause in all future awards. This recommendation is closed.*

7. That USAID/Afghanistan's contracting officer request in writing that the Chief of Mission issue mission-wide instructions for non-DOD PSCs and their personnel, as required by Interim Final Rule 32 CFR 159.4(c), to either (1) implement standards set forth by the geographic combatant commander or (2) instruct non-DOD PSCs and their personnel to follow the guidance and procedures developed by the geographic combatant commander or subordinate commander.

*The Chief of Mission is aware of this issue and guidance on the use of PSCs has been prepared by the U.S. Embassy/Kabul Regional Security Office. The guidance has been reviewed by the Department of State Legal Office in Washington, DC. The USAID/Afghanistan mission director wrote to the Ambassador to communicate the findings of this audit report. This recommendation is closed.*

8. That, in the absence of mission-wide instructions, USAID/Afghanistan's contracting officer request in writing that the Office of Acquisition and Assistance provide acquisition and assistance award language to regulate subcontracted private security services.

*USAID/Afghanistan's Office of Acquisition and Assistance is coordinating additional reporting requirements with USAID/Washington's Management Bureau's Office of Acquisition and Assistance. The additional standard provisions or clauses in agreements are subject to the Paperwork Reduction Act and require approval by the Office of Management and Budget. Upon approval of the standard provisions or clauses, USAID will modify the acquisition and assistance agreements accordingly. This recommendation is closed.*

# **Audit of USAID/Afghanistan's Afghanistan Vouchers for Increased Productive Agriculture (AVIPA) Program (No. 5-306-10-008-P)**

**Date:** April 20, 2010  
**Implementing Partner:** International Relief and Development  
**Audit Period:** September 2008 to December 2009  
**Funding:** As of December 31, 2009, cumulative obligations under the program totaled approximately \$185.2 million, and expenditures were about \$93.4 million.

## **Background—Summary of Findings**

The AVIPA Program was initially designed to provide wheat seed and fertilizer to drought-affected subsistence farmers to help them increase wheat production in targeted areas of the country.

The audit found that the program had contributed to the country's increase in wheat production; however, the extent of the program's role in this increase was unclear, since the audit determined that some of the reported results were not reliable. In addition, the program's stabilization activities in the country's southern region were not being implemented as widely as originally planned.

The audit identified several other problems: In addition to the lack of reliable data to measure program results, the program suffered from insufficient oversight. The implementer could not retain staff, in part because of death threats, and project staff members were overburdened by requests for information and briefings from officials outside of USAID. In some cases, materials did not reach beneficiaries (a finding that has been referred to OIG's Office of Investigations). Moreover, the audit noted that up to \$50 million in unspent program funds could be reprogrammed for other activities.

## **Recommendations—Management Decisions**

OIG made three recommendations:

1. That USAID/Afghanistan require its implementer to establish appropriate procedures and controls to strengthen its monitoring of AVIPA program activities to ensure that intended beneficiaries receive program inputs and irregularities, such as those identified by this audit, are detected and addressed in a timely manner.

*USAID/Afghanistan confirmed that the implementer had established a "most robust" monitoring system to more effectively monitor program activities which included: 1) an independent Quality Assurance/Quality Control (QA/QC) team which samples selected activities for testing; 2) programmatic QA/QC teams that are dedicated to a specific program component (e.g., cash for work) and responsible for monitoring and ensuring that prescribed procedures are adhered to; and 3) a telephone "hotline" that allows the general public to express any concerns they may have regarding AVIPA activities. This recommendation is closed.*



2. That USAID/Afghanistan require its implementer to reassess the impact of its 2008–2009 wheat seed distributions using a justifiable methodology and report the results to the mission along with supporting calculations that clearly show the basis for the assessed impact.

*A management decision was reached. USAID/Afghanistan discussed the concerns regarding the assessment and the methodology with International Research and Development (IRD), and required them to undertake a new assessment of the 2008-2009 wheat seed distribution. On August 21, 2010, IRD presented the mission with a report entitled "Note on the Effects of the AVIPA Plus Voucher Distribution Program on Wheat Yields in Northern Afghanistan". According to this document, IRD reviewed and adjusted data sets in order to capture the effects of the voucher packages. This recommendation is closed.*

3. That USAID/Afghanistan determine the amount of projected surplus funds under the program and reprogram these funds to make them available for other activities under this or other programs.

*A management decision was reached. USAID/Afghanistan determined the amount of unexpended funds projected to be available in June 2010 to be \$131 million. The projected surplus funds were reprogrammed through a no-cost extension to AVIPA for the period September 1, 2010 through March 31, 2011. This recommendation is closed.*

## **Audit of USAID/Afghanistan’s Human Resources and Logistical Support Program (No. 5-306-10-007-P)**

**Date:** March 31, 2010  
**Implementing Partner:** International Relief and Development, Inc.  
**Audit Period:** March 1, 2006, to October 29, 2009  
**Funding:** As of September 30, 2009, \$47 million had been obligated, and \$36 million had been spent for project activities

### **Background—Summary of Findings**

USAID/Afghanistan launched its Human Resources and Logistical Support Program in February 2007 to help design, monitor, and support the activities of USAID-funded contractors. The program intended to (1) enhance capacity at selected ministries, (2) identify USAID-constructed buildings that do not meet seismic standards, and (3) provide quality assurance and engineering oversight for mission construction projects. USAID awarded a 5-year, \$72 million contract to International Relief and Development, Inc., to implement the program.

The audit found that the program had made progress in capacity building within selected Afghan ministries, identified defective USAID-built structures, and provided engineering oversight for mission construction projects.

In support of its first goal, the program provided the Afghan Government with additional capacity. Technical consultants hired under the program assisted Ministry of Mines personnel in preparing a proposal for the rehabilitation of gas fields to generate electrical power for the country. Meanwhile, at the Ministry of Public Works, program advisers initiated the development of a pilot program to teach ministry staff how to implement and monitor road construction projects and provide them with a more

efficient means of managing and maintaining roads in the future. At the Ministry of Energy and Water, the program contractor provided a transboundary water-rights adviser to help the ministry develop water policies for negotiations with neighbors in other countries.

With regard to the second goal—evaluating and identifying USAID-built structures that did not meet seismic standards—the program was successful in establishing a process for identifying structures that are not earthquake resistant. The mission had a database of 1,474 USAID-built structures, but the database was not complete. As of October 2009, the program had completed preliminary assessments of 468 of these structures and detailed structural seismic evaluations of 35. At that point, the program had found 15 structures to be unsafe for occupancy.

With regard to the third goal, of providing quality assurance and engineering oversight on USAID construction projects, the program had succeeded in providing these services for projects initiated by the mission’s Office of Infrastructure, Engineering and Energy. However, the mission had not been so successful in providing quality-assurance services for construction projects initiated by other program offices within the mission.

Despite the program's progress in addressing its three main goals, it has serious issues that need to be addressed. The most critical issue is to identify the many defective structures that likely remain among the estimated 1,474 mission-built structures. The total number of defective structures will be determined when the remainder of the preliminary assessments and any subsequent detailed seismic evaluations are completed. The mission anticipates that the contractor will complete 200 seismic evaluations by the end of the

contract. In addition, significant defects in five buildings reported in a prior Office of Inspector General audit report ("Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program," Audit Report No. 5-306-08-009-P, August 8, 2008) have yet to be corrected.

If all defective structures are not identified, and if those already identified are not repaired or rebuilt, a catastrophic earthquake could cause many injuries and deaths.

### **Recommendations—Management Decisions**

This report makes 12 recommendations to improve mission implementation of its construction programs:

1. That USAID/Afghanistan establish a separate reconstruction program that will provide prompt implementation of reconstruction action plans for defective structures and ensure that all defective USAID-built structures are reconstructed.

*The mission will implement the required changes using an alternative implementation strategy than that proposed in the recommendation. Rather than establishing a separate reconstruction program, the mission will use existing contracting mechanisms. A structural engineer will manage the assessment of buildings while a new construction manager will supervise the reconstruction of defective buildings. This recommendation is closed.*

2. That USAID/Afghanistan take immediate action to secure and vacate the two currently occupied defective buildings constructed under the Accelerating Sustainable Agriculture Program.

*USAID/Afghanistan determined and the RIG/Manila agreed that a management decision had been reached. In May 2010, USAID/Afghanistan completely demolished the Agricultural Network (AgNet) building in Parwan Province. The demolition was monitored and documented by the International Relief and Development, the contractor for the Human Resource and Logistical Support Program. However, USAID/Afghanistan stated that the AgNet building in Kunduz Province has not been demolished because it is occupied by a unit of Afghanistan's National Police), which commenced occupancy without the knowledge or consent of the Ministry of Agriculture, Irrigation and Livestock (MAIL), USAID, or Chemonics. According to the USAID/Afghanistan, all attempts to have ANP vacate the building have been unsuccessful and as result, MAIL and the (MOI), which has authority over ANP, jointly executed a full waiver of liability releasing USAID and Chemonics from any current or future liability for the Kunduz AgNet Building. Therefore, this recommendation is closed.*

3. That USAID/Afghanistan complete an implementation plan for the demolition and retrofitting of the five buildings constructed under the Accelerating Sustainable Agriculture Program either by compelling Chemonics to perform or by using a third party. If a third party is used, the implementation plan should include requirements to reduce

Chemonics' future billings in accordance with Federal Acquisition Regulation 52.246-5(e) for the cost of demolishing or retrofitting the structures.

*USAID/Afghanistan completed an implementation plan for the demolition and reconstruction of the five AgNet buildings. All demolition work was being conducted by Chemonics. To carry out the demolition, Chemonics awarded four subcontracts to local firms, and processing a subcontract for the demolition of the fifth building. According to the schedule submitted, demolition of all five buildings will be completed by the third week of May 2010. In accordance with the implementation plan, Chemonics submitted two documents that comprise the demolition plan. Thus, this recommendation is closed.*

4. That USAID/Afghanistan revise and reissue the November 2008 Office of Acquisition and Assistance notice on quality assurance to include requirements for quality assurance of construction performed under subcontracts and subagreements.

*On December 7, 2009, USAID issued a notice to revise previous guidelines pertaining to construction requirements in subcontracts and subagreements. This recommendation is closed.*

5. That USAID/Afghanistan revise its contracting officer's technical representative (COTR) designation letter to communicate the need to comply with construction oversight and quality-assurance requirements.

*USAID/Afghanistan's Office of Acquisition and Assistance issued an internal notice on December 30, 2010. The notice includes requirements that any award containing a construction and/or Architecture and Engineering component as defined by Mission Order No. 302-03 must include the requirements for construction monitoring and quality assurance services. Therefore, this recommendation is closed.*

6. That USAID/Afghanistan develop written procedures covering the types of roads that require mandatory engineering oversight and quality assurance.

*USAID/Afghanistan has drafted procedures for providing the appropriate engineering oversight and quality-assurance services to specific types of roads. This recommendation is closed.*

7. That USAID/Afghanistan take appropriate action during each portfolio review to require that all in-process and completed construction projects during the review cycle are documented and shared with the Office of Infrastructure, Engineering and Energy as a means for it to ensure the existing database of constructions projects is complete and provide engineering quality-assurance oversight for those projects lacking it.

*USAID/Afghanistan determined that using portfolio reviews as a vehicle would not adequately address the underlying problem that led to the recommendation. Accordingly, USAID/Afghanistan instituted a more systemic and comprehensive approach and modified project and activity approval and review to require Office of Infrastructure, Energy, and Engineering review and clear on activity planning documents that include construction or infrastructure development components. With this systemic and comprehensive approach, USAID/Afghanistan believes that quality assurance and quality control, and data management for the Mission infrastructure projects will vastly improve, helping to ensure the protection and sustainment of the U.S. Government investments in*

*infrastructure and the safety of Afghans who utilize structures funded by USAID. This recommendation is closed.*

8. That USAID/Afghanistan establish procedures to grant the mission engineers or their designated representatives the right to communicate directly with the construction contractors or subcontractors on deviations from approved engineering designs.

*USAID/Afghanistan's Office of Acquisition and Assistance issued an internal notice on December 30, 2010. The notice included language that allows mission engineers or their designated representatives to directly communicate to construction contractors and assistance providers any observed deviations from approved engineering designs. Such communications should be limited to observed deviations and should not include instructions to construction contractors or assistance providers that could result in constructive changes to the construction agreement. This recommendation is closed.*

9. That USAID/Afghanistan require that the final subcontract requirements for the design of the new campus for the American University of Afghanistan be reviewed for adherence to appropriate engineering standards.

*On December 7, 2009, USAID issued a notice requiring that subcontract requirements for construction and architectural and engineering services be reviewed and approved by the Office of Infrastructure, Engineering, and Energy (OIEE) before the Office of Acquisition and Assistance accepts them for processing.*

*To ensure that the design of the American University of Afghanistan (AUAf) campus adheres to engineering standards and USAID requirements, USAID decided to implement the design activity through a separate mechanism managed by OIEE. This was conveyed to the AUAf president in a letter from the agreement officer dated March 2, 2010. Because of AUAf's reticence about USAID's determination, discussions are ongoing to determine the best option for proceeding with the design, including whether the design should be funded by USAID. Should AUAf and its Board of Trustees opt to use USAID funds for the design activity, the procurement requirements will have to be reviewed for adherence to appropriate engineering standards. This recommendation is closed.*

10. That USAID/Afghanistan require that all engineering drawings related to the American University of Afghanistan Campus be reviewed for compliance with specified standards before the mission accepts delivery of the drawings.

*In order to ensure compliance with specified standards, USAID has determined and conveyed to AUAf that, if USAID funds are used for the design of the new campus, OIEE would implement the activity under a separate mechanism that it manages. USAID plans to present AUAf with several options for proceeding with design activities, with or without funding. This recommendation is closed.*

11. That USAID/Afghanistan require that the final statement of work clearly identifies the continuation of the Afghan Infrastructure Data Center as a core aspect of the follow-on contract, to include training of Afghan Ministries in the maintenance and use of the data center.

*The statement of work for the Engineering Quality Assurance and Logistical Support Program, the follow-on activity, has been revised to include training of Afghan Ministries. Meanwhile, the ongoing Human Resource and Logistical Support Program has completed an assessment of the Ministry of Public Works' requirements to enable it to operate and maintain the roads database. A presentation is also scheduled at the Ministry of Energy and Water to inform staff about the roll-out of the infrastructure database–Afghanistan Infrastructure and Security Cartography System–and to discuss their involvement in a user needs assessment and training. This recommendation is closed.*

12. That USAID/Afghanistan complete all required contractor performance reviews of International Relief and Development, Inc., in accordance with Agency procedures.

*Contractor performance reviews for the contract have been completed and submitted to the Contractor Performance System of the National Institutes of Health. This recommendation is closed.*

## **Audit of USAID/Afghanistan’s Building Education Support Systems for Teachers Project (No. 5-306-10-006-P)**

**Date:** January 29, 2010  
**Implementing Partner:** Creative Associates International, Inc.  
**Audit Period:** May 20, through June 10, 2009  
**Funding:** As of September 30, 2009, \$56 million had been obligated, and \$48 million had been spent for project activities

### **Background—Summary of Findings**

Almost 4 years into a \$94 million, 5-year contract with Creative Associates International, Inc., to implement USAID’s Building Education Support Systems for Teachers project, OIG’s audit concluded that the project was making progress in helping to improve the quality of education in Afghanistan but had not achieved its two main goals: improving teaching through teacher training, and institutionalizing ministry structures and systems that support high-quality teaching.

Afghanistan has one of the highest illiteracy rates in the world. More than 11 million Afghans over the age of 15 cannot read or write. In rural areas, where three-fourths of all Afghans live, 90 percent of the women and over 60 percent of the men are illiterate. Under the Taliban, girls were not allowed to go to school, fewer than 900,000 boys were enrolled, and many received religious education in lieu of academics. The implications of this lack of education can be felt in all domains of life. Afghans have little access to information about good health practices, and most of the country’s judges and civil servants do not have more than a high school diploma. Today more than 5.7 million students attend school. However, the Afghan Government is striving to improve education for its people, and the Ministry of Education is working with USAID and other donors to implement a

5-year National Education Strategic Plan (2006–10).

The audit found that much of the training of teachers had been completed. For example, 50,600 of the target of 54,000 teachers in the 11 provinces had received inservice training for teachers already working for the Ministry of Education. Although the project had not attempted to measure the extent to which teaching had actually been improved, teachers we spoke with expressed satisfaction with the training they had received. And much of the technical assistance to the Ministry of Education had been completed. For example, Creative Associates had assisted in recruiting and selecting most of the 444 candidates who were expected to help the Ministry of Education develop its capacity to improve the quality of teaching.

In addition, the audit found that district teacher training teams had been established to help conduct training in all 11 provinces.

This approach used a cascading process of training existing teachers as instructors who in turn would train other teachers. The project teamed with subcontractors to select and hire 181 team leaders, 1,361 team members, and 8 provincial project monitoring officers, all by December 2007. Moreover, the project developed (1) an action plan for the Ministry of Education’s 5-year strategic plan, (2) a human resources policy manual, (3) a training

curriculum for management skills, and (4) an action plan for the integration of the Human Resources Department and the Reform Implementation and Management Unit at the Ministry of Education.

Notwithstanding these accomplishments, the audit found that some significant tasks and activities included in the project's contract and work plan had not been completed. For example, the project had not completed the curriculum development and related inservice teacher training or the accelerated program for teachers who did not meet Ministry of Education teaching qualifications for their

specific subject/grade level, as planned under component 1 of the project. The project also did not complete some activities planned under component 2—for example, technical assistance intended for the Ministry of Education's Human Resources Department, such as development of a curriculum and staff training on a human resource database; creation of a training manual for the payroll database for budget staff; and preparation of at least one workshop on pedagogical methods for faculty at each provincial teacher training college. The contractor hoped to complete these efforts by the contract's end.

### **Recommendations—Management Decisions**

The audit made four recommendations to help the mission properly oversee implementation and evaluation of the project:

1. That USAID/Afghanistan negotiate a new memorandum of agreement with the Afghan Ministry of Education to formalize a working relationship between the mission, Creative Associates International, Inc., and the Ministry of Education to be used for accomplishing tasks and activities for the remaining period of the Building Education Support Systems for Teachers Project (BESST).

*A new memorandum of agreement (MOA) between the Ministry of Education, Creative Associates International and USAID was signed on January 25, 2011. The revised MOA formalizes the relationship between the Mission, Creative Associates International, and the Ministry of Education by defining roles and responsibilities of the partners and the activities to be implemented during the remaining period of the BESST project. Activities include the accelerated learning program for teachers, building the capacity of the Human Resources Department of the Ministry of Education, and delivery of radio-based long-distance education. This recommendation is closed.*

2. That USAID/Afghanistan require Creative Associates International, Inc., to submit all pertinent information related to all Building Education Support Systems for Teachers Project subcontract modifications for which the mission has not been notified. After receipt of the pertinent information from Creative Associates International, Inc., the mission should determine and document the acceptability of the subcontract modifications.

*Since contract inception, Creative Associates International, Inc. had sought initial consent from the contract office for all subcontracts with individual organizations. After receiving approval from USAID for subcontractor budget estimates, documents on administrative actions between Creative Associates International, Inc. and the subcontractors, such as funding modifications, were not submitted to USAID for approval. Creative Associates International, Inc. has now provided USAID with all subcontract modifications. Each subcontract modification will be reviewed by the contracting officer for acceptability and approval. This recommendation is closed.*



3. That USAID/Afghanistan require a closeout audit of the subcontract between Creative Associates International, Inc., and JBS International, Inc.-Aquirre Division related to the Building Education Support Systems for Teachers Project and take all corrective actions detailed in the closeout audit report.

*USAID/Afghanistan verified that Creative Associates procured an audit of their subcontract with JBS International, Inc. - Aguirre Division. According to Creative Associates, all cost samples were tested as to their compliance with the Federal Acquisition Regulations and USAID regulations and allowability to be billed to USAID. Also, JBS termination costs were determined by Creative Associates as being within reason. This recommendation is closed.*

4. That USAID/Afghanistan require Creative Associates International, Inc., and its subcontractors to provide documented proof of compliance with the requirements of USAID Automated Directive System Chapter 320, "Branding and Marking," or submit a written request to the mission for a waiver from the requirements.

*The mission has formally advised the contractor of its responsibility to be compliant with the approved branding and marking plan and has received the contractor's plan. This recommendation is closed.*

## **Audit of USAID/Afghanistan’s Civilian Assistance Program (No. 5-306-10-004-P)**

**Date:** December 15, 2009  
**Implementing Partner:** International Organization for Migration  
**Audit Period:** April 2007 to February 2009  
**Funding:** As of December 31, 2008, \$18.5 million had been obligated and about \$6.4 million had been spent for program activities

### **Background—Summary of Findings**

The Civilian Assistance Program is being implemented through a \$27 million, 3-year cooperative agreement (April 2007 to April 2010) with the International Organization for Migration. OIG’s audit found that the program—which is intended to provide help to Afghan families and communities that have suffered losses because of military operations—was not on target to assist eligible program beneficiaries.

Assistance under the program is generally provided in the form of goods and services to those who have suffered losses—a farmer might receive a tractor or livestock and a grocer might receive merchandise to restock his store. At the midpoint of the program, just over 800 of the more than 6,000 eligible families in the program were receiving assistance, about 13 percent. As of January 22, 2009, the implementer reported that it had assisted only about 40 percent of families included in its revised recovery plan, which had been submitted just after the implementation midpoint.

In addition, until the program was halfway through, USAID officials had very limited involvement in the program and little

information about its progress. Officials had not followed up regularly on the status of the implementer’s implementation plan, monitoring and evaluation plan, or quarterly program reports. The mission also had not made sufficient site visits to adequately evaluate the program’s progress and had not properly monitored the staffing of positions for the implementing organization.

Security concerns contributed to the program’s understaffing, which continued to be a challenge at the time of the audit. As of January 2009, a subcontractor for the implementer had hired only 56 of the 86 employees that it believed necessary to meet program targets. At the time of the audit, the implementer’s documents indicated that its subcontractor was still in the process of hiring 30 staff members for the 6 regional offices where the program was being implemented. In addition, the implementer had not taken advantage of opportunities to improve the effectiveness and efficiency of the program, such as limiting the program’s eligibility period and requiring beneficiaries to present Afghan national identification cards.

### **Recommendations—Management Decisions**

The audit made seven recommendations to help the mission properly oversee implementation and evaluation of the program.

1. That USAID/Afghanistan develop a plan that will provide sufficient work time for the agreement officer's technical representative assigned to the Afghan Civilian Assistance Program to properly monitor and evaluate the programmatic needs for the program so that it can be implemented effectively and on schedule.

*USAID dedicated a full-time technical representative to the program in July 2009 and ensured that the incumbent had a limited scope of work to enable them to better manage the program. The incumbent is assigned to the Provincial Reconstruction Team Office and reports directly to the office director, ensuring that the individual's duties will not be divided between oversight of the program and other outside duties. USAID also arranged for a four-member monitoring team, using an existing support services contract, to conduct site visits at four locations throughout Afghanistan in January 2010. This recommendation is closed.*

2. That USAID/Afghanistan require the International Organization for Migration to adhere to a schedule in preparing and submitting the required planning and program reporting documents, such as implementation plans, monitoring and evaluation plans, and program reports to help the mission monitor and evaluate the implementation of the Afghan Civilian Assistance Program.

*Consistent with the requirements of the cooperative agreement between USAID and the International Organization for Migration, USAID stated that the implementer has been adhering to specified reporting requirements for the past 3 quarters. With the establishment of a dedicated technical representative to provide oversight, USAID believes that the implementer will continue to meet its reporting requirements throughout the remainder of the program. This recommendation is closed.*

3. That USAID/Afghanistan require the International Organization for Migration to take appropriate action to adequately staff the Afghan Civilian Assistance Program at a level sufficient to provide timely and effective assistance to eligible beneficiaries.

*Following the audit, the implementer reassessed its staffing needs on the basis of the number of new incidents occurring in 2009, as well as the number of eligible families still requiring program assistance. The International Organization for Migration has increased its staff to 161 as agreed upon in the management decision. With the hiring of this additional staff, the International Organization for Migration increased by 78.7 percent the total program number of families receiving assistance to 3,653 families as of December 31, 2009. This recommendation is closed.*

4. That USAID/Afghanistan require that the International Organization for Migration review its policy on the eligibility period for which applicants under the Afghan Civilian Assistance Program can apply and receive benefits to determine whether a more appropriate eligibility period should be used.

*The technical representative instructed the implementer to modify the targeting of program assistance to newly occurring incidents. The implementer was responsible for prioritizing newly occurring cases over those that occurred previously and will focus efforts primarily on those incidents occurring within the life of the current award (April 2007 through November 2010).*

*For incidents prior to April 2007 that were entered into the database and had yet to receive program assistance, the implementer was to determine which ones it could realistically access and respond to with*

*available resources and which ones would need to be removed from the database. In eliminating selected past incidents from the database, the implementer's staff was expected to be able to more readily focus their efforts and resources on newly occurring incidents and those that occurred within the life of the project. This recommendation is closed.*

5. That USAID/Afghanistan require that the International Organization for Migration review its policy on completed and closed-out grants to determine whether the policy should be revised and, if appropriate, revise the policy so that completed grants can be closed out more rapidly.

*The technical representative and the implementer's management staff met to review standing program policies and discuss steps to expedite the delivery of program assistance. The performance period of assistance grants was reduced and, as of September 2009, all program assistance grants were set at a maximum of 6 months. The implementer conducts a final monitoring visit at the end of the grant and aims to close out the grant 30 days thereafter. This will enable the implementer to close out assistance grants in half of the time it had previously spent completing grants. This recommendation is closed.*

6. That USAID/Afghanistan require that the International Organization for Migration review its policy on the acceptance of identification from applicants under the Afghan Civilian Assistance Program to determine whether the policy should be revised, and, if appropriate, revise the policy to require that national identity cards be used for identification.

*The technical representative instructed the implementer to report to USAID on the costs, benefits, and feasibility of requiring recipients of program assistance to possess a national identification (ID) card, and the implementer responded with its revised policy on identification cards. In addition, it has taken the following steps to ensure that assistance is not provided to the same beneficiaries more than once:*

*All program beneficiaries are asked to present their national ID card when the implementer's staff conducts the family assessment. The national ID card number is recorded in the program's grants database following the interview. If beneficiaries do not possess a national ID card, implementing staff members ask them to obtain one as soon as possible and request that the beneficiaries to produce another form of identification.*

*Program staff search the implementing database by ID number, name (including father's name), and location (village) before issuing new grants to avoid any duplication. This recommendation is closed.*

7. That USAID/Afghanistan require that the International Organization for Migration review its procedures on the distribution of education and tailoring kits to program beneficiaries, under the Afghan Civilian Assistance Program, to determine whether the kits are being distributed expeditiously and, if not, initiate actions to remedy the distribution.

*The technical representative instructed the implementer to develop a plan for preordering and prepositioning standard forms of assistance, including education and tailoring kits. Following this instruction, the implementer reviewed its procedures and determined that the procurement process was the primary cause of its inability to expeditiously distribute assistance kits. The implementer provided a revised policy on preordering and prepositioning standard forms of assistance and signed long-term agreements with various local vendors. To attract possible bidders, implementers provide an estimate for the total value of the business.*

*The long-term agreements are valid for 6 months. After 6 months, depending on the performance of the vendors, the implementer will conduct another bid or negotiate with existing vendors to renew the agreements under the same prices, terms, and conditions. This recommendation is closed.*

## **Audit of USAID/Afghanistan's Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program (No. 5-306-10-002-P)**

**Date:** November 10, 2009

**Implementing Partner:** Louis Berger Inc./Black and Veatch Special Projects Corp.  
Joint Venture

**Audit Period:** January 2007 through April 2009

**Funding:** As of April 30, 2009, the combined ceiling price for these two task orders was \$305.5 million, and USAID/Afghanistan had obligated \$290.8 million and expended \$249.6 million for the two projects.

### **Background—Summary of Findings**

Providing electrical power to the Afghan population is crucial to Afghanistan's development. As a key to political stability, sufficient, reliable electrical power is especially important for both the capital city of Kabul and the southern agricultural provinces of Helmand and Kandahar. To improve the availability of electricity in these areas, USAID/Afghanistan awarded two major task orders under its Afghanistan Infrastructure Rehabilitation Program to the Louis Berger Inc./Black and Veatch Special Projects Corp. Joint Venture.

OIG's audit report highlighted problems faced by two power projects in Afghanistan—building a 105-megawatt plant in Kabul and making improvements in the Kajakai Dam—which were intended to supply power to key cities and provinces.

The audit concluded that, because of construction delays, USAID had not increased reliable power supplies to these two areas within the planned timeframes. For the Kabul power plant, the delays were caused by an initial inability to obtain adequate title to land for the power plant, an ambiguous

statement of work resulting in poor planning and implementation, subcontractor performance problems, a lack of onsite quality assurance, and problems clearing equipment and material through customs. For the Kajakai Dam project, deteriorating security in southern Afghanistan and inconsistent contractor performance contributed to the delay.

By May 2009, the USAID-funded projects had completed construction of generators with the ability to produce only 12 megawatts of power out of the original goal of 140 megawatts—and this increase in power had not actually been delivered to the Afghan population. As a result, the economic benefits anticipated for Kabul and the southern provinces of Helmand and Kandahar were not being realized. Additionally, the contractor estimated that cost overruns attributable to the delays would amount to \$39 million in order to complete the Kabul power plant by December.

The audit also found that the host government may not be able to afford to operate the Kabul power plant because of the

rising cost of diesel fuel and the government's inability to collect revenue for the generated electricity. Further complicating operation of the power plant is the configuration of the Kabul transmission system, which does not allow for the use of other power sources at times of year when those power sources are more competitive.

With regard to subcontractor performance on the Kabul power plant, the audit found that the contractor had charged USAID for subcontractor costs that the contractor had not paid. The contractor had not paid these costs because of disputes and questionable claims in subcontractor invoices. The total amount the contractor received from USAID

for these questionable costs (including contractor overhead, fixed fees, and imputed interest) amounted to an overbilling of USAID by \$2.1 million.

As for the Kajakai Dam project, the original subcontractor left after its personnel received kidnapping threats, and the project cannot be completed until a new subcontractor is selected. USAID will have to continue paying the fixed costs of securing and maintaining the facility until work on the plant can be resumed. These fixed costs amount to an estimated \$1 million per month, even though none of the 35 extra megawatts of power has been delivered.

### **Recommendations—Management Decisions**

The Office of Inspector General audit report made eight recommendations:

1. That USAID/Afghanistan require that its training on statement-of-work preparation be provided to all new COTRs.

*USAID established the appropriate contractual mechanisms for COTRs to receive statement of work training. This course was intended to improve the COTRs' capacity in both technical writing and the review of statements of work, and it will be provided to all new COTRs. This recommendation is closed.*

2. That USAID/Afghanistan develop procedures, such as the use of quality control checklists, to ensure that statements of work include such critical elements as clear deliverables with specified due dates.

*The contracting officer for the OIEE issued a statement of work template to all OIEE COTRs in June 2009. The template serves as a quality control checklist that describes the required elements for the statement of work and provides detailed instruction for preparing each section. This recommendation is closed.*

3. That USAID/Afghanistan establish procedures requiring that a labor skills assessment be performed by a contractor, either upon award of a construction contract or upon the award of a task order under the contract. The assessment would include, as appropriate but not limited to, the availability of qualified local labor, vocational training needed to cultivate local labor, and plans to coordinate with the mission to obtain appropriate visas for non-Afghan labor.

*Workforce capacity in designing infrastructure projects is being assessed, and new mission staff will be hired to perform preaward surveys of potential contractors and their proposed personnel. However, the mission did not agree that a blanket procedure should be put in place to require contractors to perform a labor skills assessment. Meaningful labor assessments are difficult to maintain in Afghanistan, given the fluidity of the*

*workforce and the high demand for skilled labor. Instead, the mission expects to use preaward personnel surveys to help verify the availability of qualified staff proposed by the contractor. This recommendation is closed.*

4. That USAID/Afghanistan establish written procedures to ensure that all significant construction projects have onsite quality-assurance engineers.

*On November 22, 2008, the Office of Acquisition and Assistance issued a notice requiring all offices to ensure that a quality-assurance surveillance program is included during the construction of vertical structures. To cover the road and power construction activities, the Office of Acquisition and Assistance will issue a similar notice that will define the technical standards to be observed and require quality-assurance monitoring during construction. This recommendation is closed.*

5. That the mission develop an overall implementation plan for the Kabul power plant project that incorporates updated construction schedules for the contractor and subcontractor, identifies delays in critical tasks, and establishes steps to keep the project on track.

*At the October 4, 2009, management meeting for the Infrastructure Rehabilitation Program, the contractor presented a detailed construction schedule and discussed how progress on each of the project components is being tracked against the schedule, on the basis of staff utilization. To provide an independent assessment of the progress of work, the mission tasked the Human Resource and Support Program to monitor work progress and bring to the mission's attention possible constraints in meeting the schedule. In addition, the COTR conducts weekly visits to the project to review the existing construction schedule, identify delays in critical tasks, and determine next steps. The contractor provides daily reports on project status. This recommendation is closed.*

6. That USAID/Afghanistan develop a comprehensive sustainability plan that includes considerations for anticipated fuel purchases as well as the impact and timing of future mission projects affecting the 105-megawatt plant.

*A plan to improve long-term plant performance and to implement a training program to develop local skills and expertise in plant operation and maintenance is being developed. The Afghan Government has provided 50,343 liters of fuel to operate the plant and has established the new national electricity corporation, Da Afghanistan Breshna Sherkat, which lays the foundation for commercializing the country's energy sector and improving services for the Afghan people. USAID is implementing the Kabul Electricity Directorate Kabul Electricity Directorate commercialization contract to improve the commercial performance of the Kabul Electricity Directorate so that it can operate on a full-cost recovery basis assuming that by 2012, this contract results in a reduction in system losses and increase in collections and revenues to be directed toward fuel purchases. This recommendation is closed.*



7. That USAID/Afghanistan prepare a detailed implementation plan that documents the current status of the Kajakai project and explains how the mission intends to proceed with installation of turbine 2, including potential barriers to successful installation of the turbine and contingency plans to overcome these barriers.

*USAID/Afghanistan prepared a detailed implementation plan that documents the current status of the Kajakai project. The mission indicated that the installation of Turbine 2 continued to be delayed due to the ongoing volatile and dangerous security environment, which is preventing ground transportation of necessary equipment and material to the site. The mission continues to coordinate with the International Security Assistance Force assessing the security situation to determine when it might be feasible to proceed with the installation of Turbine 2. Additionally, USAID is taking action to be ready to install Turbine 2 if the security environment changes quickly. USAID is also contracting to finish installation design of Turbine 2 and obtain detailed convoy size and frequency information for equipment and material that will require ground transportation to the site. Therefore, this recommendation is closed.*

8. That USAID/Afghanistan recover at least \$2.1 million (including interest imputed through May 13, 2009) from the contractor.

*USAID/Afghanistan has recovered the amount owed from the contractor. This includes \$2,042,680 that was billed for collection and \$35,746 in accrued interest. This recommendation is closed.*

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
A03101		USAID employee	Improper use/diversion of government property/personnel	Closed	EI			Employee reprimand
A04031		Contractor	False claim	Closed	PI			
A04083		USAID employee	Bribery/gratuity/kickback	Closed	PI			Contract employee termination
A04144		Contractor	Conflict of interest	Closed	EI			
A04147		USAID employee	Reciprocal fraud/procurement investments	Closed	EI	11,275,000	1 civil referral, 1 criminal referral	Savings, declinations (2)
A05041		Other	Theft of government property	Closed	PI	4,000		Administrative recovery
A05042		Other	False claim	Closed	PI	46,670		Administrative recovery
A05052		USAID employee	Theft of government property	Closed	PI			
A05083		Other	False claim	Closed	PI			
A06002		USAID employee	Intimidation/extortion	Closed	PI			
A06003		Unknown	False claim	Closed	PI			
L05046	LA-MA-08-0005-I	Contractor	Conspiracy; false claim; obstruction of justice; wire/mail fraud	Closed	PI	27,057,474	1 civil referral, 8 criminal referrals	Arrests (6), indictments (7), convictions (5), debarments (5), contract termination, savings of \$24,055,074, restitution of \$3,000,000 and fines of \$2,400
L07023		USAID employee	Pay and allowance matters	Closed	EI			Employee resignation
L07089	LA-MA-08-0004-I	Anonymous	False claim	Closed	PI	22,155,361	1 civil referral, 1 criminal referral	Savings, bills of collection: \$612,870; \$11,500,000; \$2 million; \$22,392; \$40,053; \$7,480,046; \$500,000
L07090		Unknown	Bribery/gratuity/kickback	Closed	EI			
L07093		Walk-in	Collusive bidding	Closed	PI			Employee termination
L08002		Other	False claim	Closed	PI			
O03007		Proactive	Proactive	Closed	PI			
	LA-KA-09-0197-I	Contractor	Collusive bidding	Open	PI		1 criminal referral	Personnel suspension, resignation

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-H0-08-0175-R	Congressional inquiry	Program fraud	Closed	PI			
	LA-H0-09-0034-G	Anonymous	Program fraud	Closed	PI			
	LA-H0-09-0177-I	Case spinoff	Bribery/gratuity/kickback	Open	PI	100	1 criminal referral	Arrest, indictment, conviction, debarment, sentencing assessment \$100
	LA-KA-09-0201-I	Private citizen	Program fraud	Open	PI		1 civil referral	
	LA-KA-10-0005-I	Private citizen	Program fraud	Closed	PI			
	LA-KA-10-0006-I	Private citizen	Program fraud	Closed	PI			
	LA-KA-10-0011-G	USAID employee	Bribery/gratuity/kickback	Closed	PI			
	LA-KA-10-0032-G	USAID employee	Bribery/gratuity/kickback	Closed	PI			
	LA-KA-10-0035-I	Contractor	Bribery/gratuity/kickback	Closed	PI			
	LA-KA-10-0039-I	Former contractor	Program fraud	Closed	PI			
	LA-KA-10-0057-G	Private citizen	Bribery/gratuity/kickback	Closed	PI			
	LA-KA-10-0062-I	Former contractor	Bribery/gratuity/kickback	Open	PI	200,598	2 criminal referrals	Contract employee terminations (22), savings \$81,524, debarments (22), recovery \$119,074
	LA-KA-10-0071-I	IG/Audit	Theft	Closed	PI		1 criminal referral	
	LA-KA-10-0074-G	Anonymous	Program fraud	Closed	PI			
	LA-KA-10-0078-R	Private citizen	Conflict of interest	Closed	PI			
	LA-KA-10-0079-R	Contractor employee	Program fraud	Closed	PI			
	LA-MA-08-0097-G	USAID employee	Procurement integrity	Closed	EI			
	LA-MA-08-0106-G	USAID employee	Extortion	Closed	PI			
	LA-MA-08-0107-G	Other agency referral	False statement	Closed	PI			
	LA-MA-08-0159-I	USAID employee	Collusive bidding	Closed	PI			

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-MA-08-0169-R	Private citizen	Program fraud	Closed	PI			
	LA-MA-08-0178-I	USAID employee	Program fraud	Closed	PI			
	LA-MA-08-0179-I	Anonymous	Bribery/gratuity/kickback	Closed	PI	509,554	1 criminal referral	Resignation, contract terminations (4) with savings of: \$51,551; \$14,533; \$433,270; and \$10,200; Afghan declination
	LA-MA-09-0021-R	Confidential source	Program fraud	Closed	PI			
	LA-MA-09-0024-G	Private citizen	Program fraud	Closed	PI			
	LA-MA-09-0031-I	Case spinoff	Theft	Closed	PI			
	LA-MA-09-0065-I	Anonymous	Bribery/gratuity/kickback	Closed	PI	29,300,000	1 criminal referral, 1 civil referral	Contract employee removed, contract terminated, declination, savings \$29,300,000
	LA-MA-09-0073-I	Contractor	Bribery/gratuity/kickback	Closed	PI			Contract employee termination
	LA-MA-09-0078-I	Self-initiated; spinoff	False statement	Closed	PI	1,217		Personnel suspension, bill of collection, recovery, systemic change; \$671; restitution \$546
	LA-MA-09-0079-G	Anonymous	Bribery/gratuity/kickback	Closed	PI			
	LA-MA-09-0104-I	Self-initiated; spinoff	Conspiracy	Closed	PI			
	LA-MA-09-0121-I	Contractor	Bribery/gratuity/kickback	Closed	PI	62,030,589	2 criminal referrals	Arrests (2), indictments (2), convictions (2), debarments (2), employee termination, contract cancellation, savings \$62,030,589
	LA-MA-09-0124-I	Private citizen	Conflict of interest	Open	PI		1 criminal referral	
	LA-MA-09-0136-I	Anonymous	Program fraud	Closed	PI	78,926	1 criminal referral	Arrest, debarment, indictment, conviction; restitution \$78,926
	LA-MA-09-0161-G	Other agency referral	Program fraud	Closed	PI			
	LA-MA-09-0164-I	Contractor	Program fraud	Open	PI			
	LA-MA-09-0166-I	USAID employee	False claim	Open	PI		1 criminal referral, 1 civil referral	Declination

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-MA-09-0168-I	Other agency referral	Theft	Closed	PI		1 criminal referral	Declination
	LA-MA-09-0140-G	Private citizen	Conspiracy	Open	PI			
	LA-MA-10-0013-I	USAID employee	Conflict of interest	Open	PI			
	LA-MA-10-0063-G	USAID employee	Conflict of interest	Closed	PI			
	*LA-KA-10-0052-I	Private citizen	Bribery/gratuity/kickback	Closed	PI			
	LA-KA-10-0093-I	Anonymous	False claim	Closed	PI			
	LA-KA-10-0100-I	Outside agency referral	Bribery/gratuities/ kickbacks	Closed	PI			
	LA-KA-10-0105-I	USAID employee	Bribery/gratuities/ kickbacks	Closed	PI			Removal/termination
	LA-KA-10-0130-I	OIG audit	Program fraud	Closed	PI			
	LA-KA-10-0142-I	Former contractor employee	False claim	Closed	PI			Removal/termination (2)
	LA-KA-10-0156-I	USAID employee	Conflict of interest	Closed	PI			
	LA-KA-10-0189-I	Confidential source	Bribery/gratuities/ kickbacks	Closed	PI		2 criminal referrals	
	LA-H0-10-0125-I	Other agency referral	Program fraud	Open	PI			
	LA-KA-10-0099-G	USAID employee	Program fraud	Closed	PI			
	LA-KA-10-0103-G	Private citizen	Bribery/gratuities/ kickbacks	Closed	PI			
	LA-KA-10-0109-G	Private citizen	False statement	Closed	PI			
	LA-KA-10-0124-G	Other agency referral	Bribery/gratuities/ kickbacks	Closed	PI			
	LA-KA-10-0132-I	Other agency referral	Bribery/gratuities/ kickbacks	Closed	EI			
	LA-KA-10-0140-G	Contractor employee	Bribery/gratuities/ kickbacks	Closed	PI			
	LA-KA-10-0141-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-10-0153-G	Other agency referral	False statement	Closed	PI			
	LA-KA-10-0162-R	Private citizen	Program fraud	Closed	PI			

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-KA-10-0164-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-10-0193-R	Private citizen	Program fraud	Closed	PI			
	LA-KA-10-0203-I	USAID employee	Conflict of interest/ethics	Open	EI			
	LA-KA-10-0209-I	Confidential source	Bribery/gratuity/kickback	Open	EI	10,100	1 criminal referral	Employee termination (1), suspension, *arrest, indictment, *conviction, sentenced with jail time (22 months), probation (24 months), restitution of \$10,000, special assessment \$100
	*LA-KA-10-0214-I	Contractor employee	Computer crimes	Open	EI		1 criminal referral	Arrest, indictment, conviction
	LA-KA-10-0225-G	Contractor employee	Extortion	Closed	PI			
	LA-KA-10-0242-I	Contractor employee	Theft/wire/mail fraud	Open	EI	20,000		Restitution \$20,000
	LA-KA-10-0275-I	Other agency employee	Collusive bidding/false claim	Closed	PI			
	LA-KA-10-0285-G	Confidential source/Informant	Conflict of interest/ethics	Closed	EI			
	LA-KA-10-0297-I	Contractor employee	Program fraud	Open	PI	9,900,000		Savings \$9,900,000
	LA-H0-10-0118-G	Private citizen	Bribery/gratuities/ kickback	Closed	PI			
	LA-H0-10-0126-G	Other agency referral	Program fraud	Closed	PI			
	LA-H0-10-0151-R	Private citizen	Program fraud	Closed	PI			
	LA-H0-10-0155-R	Private citizen	Conflict of interest/ethics	Closed	PI			
	LA-H0-10-0160-G	Private citizen	Conflict of interest	Closed	PI			
	LA-H0-10-0186-G	Private citizen	Program fraud	Closed	PI			
	LA-H0-10-0201-R	Private citizen	Conflict of interest	Closed	PI			
	LA-H0-10-0261-I	Private citizen	False statement	Open	EI			
	LA-KA-10-0319-R	GAO	Program fraud	Open	PI			Debarment (2)
	LA-KA-10-0291-R	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0015-I	Audit	False claim	Closed	EI			Reprimand
	LA-H0-11-0008-I	Contractor	Theft	Closed	PI			
	LA-KA-11-0018-I	Private citizen	Program fraud	Open	PI			

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-H0-11-0045-I	Private citizen	Program fraud	Open	PI			
	LA-H0-11-0043-I	USAID employee	False statement	Open	PI			Debarment
	LA-KA-11-0055-I	Anonymous	False claim	Closed	PI			
	LA-H0-11-0056-I	Self-initiated; spinoff	Program fraud	Open	PI		1 criminal referral, 2 civil referrals	Declination
	LA-KA-11-0024-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0030-I	Contractor	Bribery/gratuity/kickback	Closed	PI			Removal/termination (2)
	LA-H0-11-0040-I	Private citizen	Program fraud	Closed	PI			
	LA-H0-11-0068-G	Contractor	Program fraud	Closed	PI			
	LA-H0-11-0072-G	Private citizen	Program fraud	Closed	EI			
	LA-KA-11-0089-I	USAID employee	Program fraud	Open	EI			
	LA-KA-11-0090-G	Contractor	Program fraud	Closed	PI			
	LA-KA-11-0074-I	Contractor	Program fraud	Closed	PI	30,500		Removal/termination; Bill of collection \$30,500
	LA-H0-11-0009-I	Proactive	Program fraud	Open	PI			
	LA-KA-11-0079-I	Private citizen	Bribery/gratuity/kickback, conflict of interest	Closed	PI			Removal/termination
	LA-KA-11-0138-R	Contractor	False statement	Open	PI			Removal/termination
	LA-KA-10-0296-G	Contractor	Conflict of interest	Closed	PI			
	LA-KA-10-0312-I	Anonymous	Program fraud	Open	EI			
	LA-KA-11-0022-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0114-G	Anonymous	Bribery/gratuity/kickback, conflict of interest/ethics	Closed	EI			
	LA-KA-10-0287-G	Audit	False claim	Closed	EI			
	LA-H0-10-265-R	Private citizen	Program fraud	Closed	PI			
	LA-H0-10-293-R	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0140-I	Private citizen	Bribery/gratuity/kickback	Open	PI			
	LA-KA-11-0152-I	Private citizen	Program fraud	Open	PI			
	LA-KA-11-0166-I	USAID employee	False claim, false statement, program fraud, theft	Open	PI			
	LA-KA-11-0129-I	Confidential source/informant	Bribery/gratuity/kickback	Open	PI			
	LA-KA-10-0262-I	USAID employee	Conflict of interest/ethics	Closed	PI			
	LA-KA-11-0189-I	Private citizen	Theft	Open	PI			Removal/termination; debarment
	LA-KA-11-0195-I	Contractor employee	Program fraud	Open	PI			
	LA-KA-11-0182-I	Contractor employee	Bribery/gratuity/kickback; conflict of interest/ethics	Open	PI			

## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-KA-11-0183-I	Contractor employee	Bribery/gratuity/kickback; conspiracy	Open	PI			
	LA-KA-11-0185-I	Contractor employee	Bribery/gratuity/kickback, conflict of interest/ethics, conspiracy, false statement, Procurement Integrity Act violation	Open	PI			
	LA-KA-11-0174-I	Contractor employee	Bribery/gratuity/kickback	Open	PI			Removal/termination
	LA-KA-11-0210-G	Contractor employee	Conflict of interest/ethics	Closed	EI			
	LA-KA-11-0211-I	USAID employee	Conflict of interest/ethics	Open	EI			
	LA-KA-11-0212-R	Former contractor employee	Conflict of interest/ethics	Closed	PI			
	LA-KA-11-0215-G	Anonymous	Conflict of interest/ethics	Closed	EI			
	LA-KA-11-0197-I	Contractor employee	Bribery/gratuity/kickback, conflict of interest/ethics, conspiracy	Open	PI	105,000		Savings of \$105,000; termination of contract; removal/termination
	LA-KA-11-0179-1	Contractor employee	Bribery/gratuity/kickback; conflict of interest/ethics	Open	PI			
	LA-KA-11-0176-I	Contractor employee	Bribery/gratuity/kickback, conflict of interest/ethics, conspiracy, collusive bidding, program fraud, extortion	Open	PI			
	LA-KA-11-0115-I	Former contractor employee	Theft	Open	PI			
	LA-KA-11-0225-I	Other agency referral	Program fraud	Open	PI			
	*LA-KA-11-0228-G	Private citizen	Program fraud	Closed	PI			
	*LA-KA-11-0230-I	Private citizen	Program fraud	Open	PI			
	LA-KA-11-0240-I	Contractor employee	Bribery/gratuity/kickback; conflict of interest/ethics, program fraud	Open	PI	40,005		Recovery of \$40,005; removal/termination
	*LA-KA-11-0253-I	Contractor employee	False claim; false statement	Open	PI		1 civil referral	
	LA-KA-11-0267-I	Private citizen	Bribery/gratuity/kickback; collusive bidding; conspiracy	Open	PI			
	LA-KA-11-0275-I	Case spinoff	False statement	Open	PI			
	LA-KA-11-0274-I	Contractor	Conflict of Interest; conspiracy; false statement; program fraud; theft; wire/mail fraud	Open	PI			



## Afghanistan Investigative Case Work and Fraud Prevention Briefings

Case Number	Criminal Law Enforcement Records System	Source	Allegation	Status	Program Integrity (PI) or Employee Integrity (EI)	Savings and Recoveries (\$)	Department of Justice Civil/Criminal Actions	Results
	LA-KA-11-0281-I	Contractor	False claim; false statement; program fraud	Open	PI			
	LA-KA-11-0284-P	Private citizen	False statement	Open	PI			
	LA-KA-11-0286-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0264-I	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0280-I	USAID employee	False claim; conflict of interest/ethics	Open	PI	5,786		Savings of \$842; bill of collection \$4,944
	LA-KA-11-0306-I	Contractor	Theft	Open	PI	7,885		Recovery of \$7,885
	LA-KA-11-0319-G	Private citizen	Program fraud	Closed	PI			
	LA-KA-11-0328-I	Contractor	Program fraud	Open	PI			
	LA-KA-11-0330-P	Private citizen	Program fraud	Open	PI			
	LA-KA-11-0342-G	USAID employee	False Claim; program fraud	Closed	PI			
	LA-KA-11-0345-R	Anonymous	False statement	Open	PI			
	LA-KA-11-0351-R	Former Contractor	Program fraud	Closed	PI			Letter of reprimand; personnel suspension
	LA-H0-12-0026-I	USAID employee	Theft	Open	PI	95,722		Termination (2); bill of collection for \$95,722
	LA-H0-12-0028-I	Contractor	Theft	Open	PI			
	LA-KA-12-0031-I	Contractor	Program fraud	Open	PI			
	LA-KA-12-0054-R	Contractor employee	Program fraud; theft	Open	PI	8,000		Recovery of \$8,000; personnel suspension
	LA-KA-12-0076-R	Contractor employee	Theft	Open	PI			Debarment
	LA-KA-12-0077-R	Contractor employee	False claim; false statement	Open	PI			Debarment (2)
	LA-KA-12-0086-I	Contractor employee	Bribery/gratuity/kickback	Open	PI		1 criminal referral	Arrest

**\$162,882,487**

FY 2012 First Quarter Results		Cumulative Results*
<b>Cases opened</b>	<b>14</b>	<b>169</b>
<b>Cases closed</b>	<b>15</b>	<b>108</b>
<b>Cases pending</b>	<b>61</b>	<b>61</b>
<b>Department of Justice referrals</b>	<b>3</b>	<b>38</b>
<b>Arrests</b>	<b>3</b>	<b>13</b>
<b>Indictments/criminal complaints/criminal Information</b>	<b>3</b>	<b>13</b>
<b>Convictions/pleas</b>	<b>2</b>	<b>11</b>
<b>Administrative actions</b>	<b>32</b>	<b>119</b>
<b>Fraud awareness briefings</b>	<b>6</b>	<b>96</b>
<b>Attendees at fraud awareness briefings</b>	<b>100</b>	<b>1,879</b>

*Applicable monetary actions have been added to administrative actions*

\* May 2003 through December 2011.

# Afghanistan Investigative Summaries Fiscal Years 2004–12

## **Contract Employee Arrested by Local Police on Kickback Charge**

### **Allegation**

A local USAID contract employee was arrested on bribery charges in Kabul. The employee was charged with demanding and receiving a kickback stemming from his work as a procurement officer for USAID's Afghanistan Small and Medium Enterprise Development (ASMED) project. Specifically, the employee solicited and received a one-time payment of \$3,000, along with a promise to receive an additional \$1,500, in exchange for processing a grant to a program beneficiary in Laghan province.

### **Status**

A man whom was employed by USAID contractor DAI, is an Afghan citizen and therefore will be prosecuted in an Afghan court with a criminal charge bearing a maximum sentence of up to 10 years in prison and restitution of \$10,000. The arrest was carried out by the Afghan National Police and by investigators from the Afghan Attorney General's Anti-Corruption Unit (ACU) with assistance from USAID's Office of Inspector General (OIG) agents.

## **Australian Man Sentenced to 22 Months in Prison for Bribe**

### **Allegation**

A former senior construction manager who worked as an agent for an intergovernmental organization pleaded guilty to seeking \$190,000 in payments as a reward for steering U.S.-funded contracts in Afghanistan. Neil Campbell worked in Afghanistan as a contractor and acted as an agent for the International Organization for Migration.

### **Status**

The International Organization for Migration has received more than \$260 million from USAID since 2002 to construct hospitals, schools and other facilities. He was sentenced to 22 months in prison, to be followed by two years of probation. He also was ordered to forfeit \$10,000 he received as part of his illegal activities

## **Personal Service Contractor Sentenced for Embezzlement**

### **Allegation**

As reported in our previous semiannual report, OIG agents arrested an individual who was responsible for financial management activities in USAID's Armenia office for embezzling more than \$47,000 in U.S. Government funds.

### **Status**

The 63-year-old former employee with USAID was sentenced to 29 months in prison on federal

charges of theft of government property and filing a false income tax return. He was also ordered to pay restitution in the amount of \$36,325 as well as a penalty of \$1.9 million for failure to report a foreign bank account.

## **Foreign Service Nationals Steal Vehicles Worth \$95,722 Purchased with USAID Funds**

### **Allegation**

OIG initiated an investigation into the theft of two vehicles from Jhipiego (an international nonprofit health organization affiliated with Johns Hopkins University) in Afghanistan, which were the property of the program and purchased with USAID funds. The investigation revealed that two local national employees had apparently stolen the vehicles from their office when they were scheduled for night duty. The employees checked out the vehicles and never returned with them after their shift.

### **Status**

Jhipiego reimbursed USAID for the loss of the vehicles through a bill of collection in the amount of \$95,722. The two employees were subsequently terminated.

## **Foreign Service National Failed to Disclose Conflict of Interest Issue**

### **Allegation**

An OIG investigation revealed that a USAID COTR approved the employment of his brother as a construction supervisor on a project he managed. The COTR failed to disclose the relationship to USAID and his brother was selected and approved for the position.

### **Status**

The COTR was suspended without pay for 10 business days.

## **Local Afghan National Embezzled \$8,000 from USAID Contractor**

### **Allegation**

A local Afghan employee of a USAID contractor embezzled \$8,000 in U.S. Government funds from the Afghanistan Informal Justice Program. The employee, as part of his duties, negotiated vehicle rentals for the company. The employee entered into a contract with a local national to rent a vehicle. Shortly thereafter, the vehicle was stolen. The employee called the contractor and stated he was the rightful owner of the stolen vehicle and demanded payment. The employee also stated that he had a contract with the contractor for \$1,500 a month for the same vehicle. The employee collected the \$1,500 for the next six months.

### **Status**

The contractor refunded \$8,000 to USAID and terminated the employee.

## **2 Afghan Nationals Terminated for Submitting False Travel Vouchers**

### **Allegation**

A USAID implementer self-reported to the OIG that two local employees had submitted expense reports with fraudulent invoices for project-related travel resulting in a loss of over \$5,600 in U.S. Government funds. One subject, was employed as the program's Public Outreach Capacity Development Advisor, and the other as the Print and Communications Specialist, created fake invoices using Microsoft Word.

### **Status**

USAID was reimbursed for the incurred loss of funds and both employees were later terminated.

## **Suspension of Afghan Construction Company with Connections to Terrorist Organizations**

### **Allegation**

On September 30, 2010, International Relief and Development Incorporated and USAID OIG received information from the U.S. Army that it had detained and arrested the president of Ashan Aman Construction Company (AACC) for supporting and facilitating Taliban attacks in Kandahar, Afghanistan. After confirming AACC was a subcontractor on the USAID-funded Afghanistan Vouchers for Increased Productive Agriculture program, USAID OIG worked with the U.S. Army and the USAID Office of Security to confirm the company's president was a known insurgent sympathizer and material supporter.

### **Status**

Based on the referral from USAID OIG, the company's president and AACC were subsequently debarred from any involvement with U.S. Government programs, effective May 25, 2011.

## **Investigation Leads to \$105,000 in Savings and Termination of Subcontract by DAI**

### **Allegation**

A DAI procurement officer instructed his subordinate to contact companies bidding on subcontracts under the RAMP UP EAST program in Afghanistan and request that they increase their bids in order to cover the cost of a kickback to the DAI employees for awarding the subcontract. Farid Construction Professional Company (FCPC) subsequently entered into an agreement with the DAI employee to increase its bid to cover the cost of the kickback. In exchange for this payment, FCPC would be awarded the contract.

### **Status**

DAI terminated the employee on April 20, 2011. Because of these findings, DAI did not award the contract to FCPC, resulting in a savings of \$105,000.

## **Afghan Sentenced to Prison on Child Pornography Charges**

### **Allegation**

In April, 2011, an employee of DAI working on a project funded by USAID was found guilty of child pornography and sentenced by an Afghan court to 1½ years in prison. DAI, a U.S.-based corporation, has a \$36 million contract with USAID to implement the Afghanistan Small and Medium Size Development program designed to promote small and medium size businesses in Afghanistan. USAID OIG obtained and executed a U.S. Federal search warrant on the employee's computer which revealed clips of child pornography.

### **Status**

The employee was found guilty and sentenced to 1½ years. The case was prosecuted locally in Herat Province.

## **Civil Settlement Related to Fraud in USAID-Funded Programs in Afghanistan and Pakistan**

### **Allegation**

In June 2011, the Academy for Educational Development (AED) agreed to settle allegations that the company submitted false claims to USAID in connection with two cooperative agreements through which AED provided foreign assistance in Afghanistan and Pakistan.

### **Status**

Although certain terms of the settlement with the Department of Justice are contingent on future events, AED has already paid \$5,635,000 towards these claims and could potentially pay up to an additional \$15 million over the next three years. In the settlement agreement, the Government alleged that AED failed to ensure that its actions under these two cooperative agreements complied with applicable regulations concerning competition in procurements, adherence to contract specifications, and supervision of its subcontractors. The Government further alleged that AED failed to inform USAID that it had discovered defects in its internal control systems and that certain AED subcontractors may have been involved in corruption and wrongful activities.

## **USAID Contractor Debarred in Connection with Principal's Misconduct and Lack of Adherence to Federal Regulations**

### **Allegation**

As the result of an OIG investigation, SERVCOR, a provider of security services, has been debarred from contracting with the U.S. Government for 3 years. The debarment is based on the company's affiliation with United States Protection and Investigations (USPI), whose principals were prohibited in 2008 from working with U.S. Government agencies for 3 years. The former executives of USPI were convicted of conspiracy, major fraud, and wire fraud in connection with USPI's subcontract with the Louis Berger Group, Inc. (LBG), in the performance of USAID-funded rebuilding efforts in Afghanistan.

In 2009, SERVCOR signed a \$2.3 million contract with a company doing business with the U.S. Army Corps of Engineers. The principals, through their management and control of the company,

continued to subcontract with organizations that had been barred from doing business with the U.S. Government.

**Status**

During the period of debarment—in the absence of compelling reasons otherwise—federal agencies may not award or renew contracts with SERVCOR nor may other Government contractors award subcontracts to the company that exceed \$30,000. SERVCOR will also be excluded from certain federal assistance and benefits programs during the period of debarment.

## **Two Louis Berger Group Employees Plead Guilty to Fraud**

**Allegation**

LBG is a corporation that focuses on infrastructure engineering, environmental science and economic development. USAID awarded large, multiyear, multi-million-dollar contracts to LBG, most of which involved reconstruction efforts in Afghanistan.

An investigation spanning several years substantiated that, during the life of these contracts, high-ranking LBG employees manipulated overhead rates, incurred cost submissions, and corporate salaries to overcharge the U.S. Government.

**Status**

On November 5, 2010, two high-ranking LBG employees pleaded guilty to conspiracy to defraud the U.S. Government. As part of the plea agreement, LBG agreed to a settlement, which resulted in a reimbursement to the U.S. Government of \$69 million. Sentencing for the two LBG employees is pending.

## **Afghan Sentenced to Prison and Debarred for Fraud against USAID**

**Status**

A former finance coordinator for Associates for Rural Development (ARD) was found guilty of embezzlement and falsification of tax records in connection with the theft of approximately \$200,000 from ARD. The company is the implementer of an \$80 million contract under USAID's Local Governance and Community Development (LGCD) Program in Afghanistan.

The individual was sentenced to 7½ years in an Afghan prison, fined \$160,000, and is now prohibited from participating in procurement transactions with any federal government agency. The individual's 3-year debarment took effect January 2011.

## **Ongoing Investigation Results in Multiple Debarments, Terminations, Savings, and Recoveries**

### **Allegation**

As a follow-up to OIG's previous semiannual report, DAI, a USAID contractor managing a \$349 million governance and community development project in Afghanistan, has terminated 12 additional employees because of information revealed by ongoing internal investigations being conducted in conjunction with OIG. USAID also proposed debarment of 22 former employees of the implementing partner who were implicated in misconduct, including the solicitation of kickbacks and conflicts of interest.

### **Status**

To date, the investigations have resulted in the recovery of \$119,074 and \$81,524 in savings.

Our investigation resulted in the termination of the 22 of the contractor's Afghan employees, including several engineers and other staff members. OIG secured evidence that the employees were engaged in schemes to defraud the U.S. Government and demanded kickbacks from local subcontractors. After OIG brought the information to the contractor's attention, the contractor terminated the employees and prohibited them from future employment with the company.

## **Afghan Citizen Arrested in Scheme to Defraud USAID**

### **Allegation**

An Afghan citizen was accused of embezzling nearly \$193,000 while working as a finance coordinator on a \$229 million local governance program financed by USAID and implemented by an American contractor.

### **Status**

The individual was arrested by Afghan law enforcement authorities in May 2010. The defendant was responsible for depositing into a local bank account the contractor's monthly tax payments to Afghanistan's Ministry of Finance. When the Ministry reported that it had not received the payments, an investigation was initiated. Law enforcement officials found that the bank deposit slips the defendant had submitted to the contractor as proof of payment were fraudulent.

## **Arrests Made and \$62 Million Solicitation Canceled Following Investigation of Conspiracy to Solicit Kickbacks**

### **Allegation**

OIG initiated an investigation into an alleged conspiracy to sell privileged information in connection with the award of a private security services subcontract to protect U.S. Government personnel and contractors in Afghanistan. The subcontract was valued at more than \$60 million.

### **Status**

The investigation identified three subjects who were involved in a conspiracy to solicit kickbacks from private security vendors in return for favorable consideration for the awarding of subcontracts

in connection with USAID's Afghanistan Infrastructure Rehabilitation Program. USAID, upon learning of the full nature of the conspiracy, canceled the subcontract.

One of the co-conspirators, an Australian, voluntarily surrendered and was arrested upon entry into the United States. The subject subsequently pleaded guilty on November 16, 2009, to one count of conspiracy to solicit a kickback and received a 9-month prison sentence. The subject will be deported after the conclusion of the sentence.

Another of the co-conspirators, an American, pleaded guilty on January 26, 2010, to one count of aiding and abetting the solicitation of a kickback. The subject is free on bail awaiting sentencing, scheduled for later this year.

A third co-conspirator, an American, was sentenced on December 19, 2009, to 12 months and 1 day. The subject has reported to the Bureau of Prisons to commence the sentence.

## **Savings Mount to \$22 Million in OIG Investigation**

### **Allegation**

In August 2007, OIG initiated an investigation on the basis of an anonymous complaint that a grantee linked to the United Nations Development Fund may have improperly drawn funds from a USAID agreement. The organization, the UN Office for Project Services (UNOPS), reportedly withdrew millions of dollars from its letter of credit after being notified that it could bill only nominal closeout costs for projects it was implementing. The projects were alleged not to have been completed as claimed, and others had defects and warranty issues that the organization would not address.

### **Status**

OIG uncovered many performance and financial control problems and potential violations of law. Relying on a USAID letter of credit, UNOPS had transferred funds to and from a USAID project systematically without USAID's knowledge or consent. When asked to explain the transfers, the organization refused to justify the use of the questioned funds. The investigation further cited poor design and poor performance on construction projects and false reporting on projects. Some projects were not completed, and others had defects and warranty issues, including some life-threatening oversights. Projects had numerous design errors, repairs left undone, and equipment and materials never installed that had been billed as completed. Savings and recoveries from this investigation total more than \$22 million thus far.

## **Criminal Investigation Yields \$24 Million in Savings and Recoveries**

### **Allegation**

OIG received complaints of widespread fraud, waste, and abuse on the part of a primary USAID contractor in Iraq and Afghanistan, United States Protection and Investigations (USPI), LLC. Among the allegations were billing of the same labor costs to multiple contracts, inflation of rental car receipts, and kickbacks to local officials. The security contracts were intended to support USAID's Rehabilitation of Economic Facilities and Services Program in Afghanistan.



### **Status**

Following an investigation, a seven-count indictment was returned on September 30, 2008, involving four individuals charged with conspiracy, major fraud, and wire fraud arising from a scheme to defraud the United States in connection with the war and reconstruction efforts in Afghanistan. The subcontractors defrauded USAID by obtaining reimbursement for inflated expenses purportedly incurred for rental vehicles, fuel, and security personnel. These false invoices inflated the amounts the contractor actually had paid for rental vehicles and fuel.

The co-owners of the security company pleaded guilty on September 9, 2009, to conspiracy, major fraud, and wire fraud. Their plea agreements require them to forfeit \$3 million in proceeds that can be traced to the fraud. Further, USAID realized additional savings after the contract with USPI was canceled in March 2009.

The company and the other individuals charged have been suspended indefinitely from doing business with the U.S. Government. One is serving a 2-year sentence in Kabul. The second individual was placed on trial on March 20, 2010. A mistrial was declared, and the Department of Justice is considering whether to retry the individual.

This case was investigated jointly by USAID/OIG, the Federal Bureau of Investigation, and the National Procurement Fraud Task Force.

## **Employee Resigns When Investigation Uncovers Conflicts of Interest**

### **Allegation**

OIG received an allegation that USAID employees were committing fraud in connection with the purchase of supplies and services. One employee reportedly demanded kickbacks from a vendor and conspired with a third-country national to inflate costs for bulletproof vests and helmets and then share the profits. The allegation also claimed that two employees working for the first suspect were paying him shares of money they had received fraudulently, and one was given unfair advantage in the hiring process by being provided interview questions in advance.

### **Status**

A USAID employee responsible for purchasing equipment and supplies for the mission in Afghanistan resigned after an investigation uncovered conflicts of interest and fraud. The employee was found to be conducting business with people to whom he was personally connected, and he produced false records from a nonexistent business as proof of various business transactions. Some transactions were cancelled as a result of the investigation, saving USAID more than \$500,000.

## **Inflated Claims for Medical Costs Result in Resignation**

### **Allegation**

OIG received an allegation that a USAID employee was committing fraud by submitting vouchers and being paid for the reimbursement of medicine and medical treatment that cost less than the employee claimed. The allegation claimed that the employee had self-audited one such voucher, in violation of USAID's internal controls.

### **Status**

The investigation substantiated the claims of the allegation, and the employee voluntarily resigned after being suspended by USAID.

## **Employee Fired for Promoting Corruption**

### **Allegation**

OIG received allegations that a company responsible for building industrial parks in Afghanistan was undertaking unfair and illegal procedures to award generator contracts, in collusion with a USAID Foreign Service National (FSN) employee who was reportedly soliciting kickbacks in exchange for future contracts.

### **Status**

Investigators were unable to produce sufficient evidence to substantiate the allegations; however, they did uncover other abuses in which the employee had been engaging, such as instructing friends to lie on their applications to USAID and advising them that he would obtain the questions to be asked in their interviews ahead of time. The FSN was subsequently fired.

## **Subgrantee Bills Inappropriate Costs to USAID Grantee**

### **Allegation**

Allegations were received that a subgrantee of a USAID prime grantee billed unallowable costs in connection with a \$128 million cooperative agreement to provide basic health care services, including family planning and immunizations, throughout Afghanistan.

### **Status**

The OIG investigation identified \$80,000 in questioned costs given as vouchers to the grantee by its subgrantee, more than \$46,000 of which was determined unallowable and inappropriately billed to USAID. As a result of the investigation, USAID issued a demand letter to the grantee to repay the funds. The grantee then issued a credit to USAID for the amount in question.

## **Investigation Results in Savings of \$11 Million**

### **Allegation**

OIG received an allegation that a grantee, in order to win an award, had made misrepresentations in its proposal pertaining to the status of an agreement with a subgrantee.

### **Status**

The investigation verified that the representations were false, but because there was insufficient evidence to prove intent, OIG could not secure prosecution. However, USAID terminated the cooperative agreement for material noncompliance with the terms and conditions of the award, leading to \$11.2 million in savings for USAID.