



*Office of Inspector General*

August 31, 2011

**MEMORANDUM**

**TO:** USAID/Afghanistan Director, S. Ken Yamashita

**FROM:** OIG/Afghanistan Director, Nathan S. Lokos /s/

**SUBJECT:** Review of USAID/Afghanistan's Afghan Civilian Assistance Program (Report Number F-306-11-005-S)

This memorandum transmits our final report on the subject review. This report contains seven recommendations to help USAID/Afghanistan manage its Afghan Civilian Assistance Program. In finalizing the report, we carefully considered USAID/Afghanistan's comments on the draft, and we have included them (without attachments) in Appendix II.

Based on the mission's comments and the supporting documentation, final action has been taken on Recommendations 1 and 2, and a management decision has been reached on Recommendation 5. The mission has sustained \$164,238.63 of the questioned costs for Recommendation 2. No management decisions have been reached on Recommendations 3, 4, 6, and 7. A management decision for these recommendations can be reached when USAID/Afghanistan has determined the allowability of the identified questioned costs.

The Audit Performance and Compliance Division will make a determination of final action on Recommendation 5 upon completion of the proposed corrective actions. Please advise our office within 30 days if there is any additional information related to the four recommendations without a management decision.

I want to thank you and your staff for the cooperation and courtesies extended to us during this review.

# SUMMARY

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’s response to the needs of these families and communities is expected to contribute to the overall stabilization of Afghanistan. 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. These kits, which IOM buys from Uranus Trading and Logistics Company, were introduced in 2010 as a reform that would improve control over program expenditures and reduce opportunities for fraud. Prior to that, IOM distributed cash to field offices, which were expected to use the cash to buy food, livestock, and other commodities to distribute to program beneficiaries.

IOM uses an eight-step process to deliver assistance to beneficiaries:

1. Incident verification
2. Incident nomination
3. Beneficiary identification
4. Family assessment
5. Grant approval
6. Assistance delivery
7. Monitoring
8. Grant closing

Details on each step appear in Appendix III, and Table 1 summarizes progress.

**Table 1. Program Progress as of April 24, 2011 (Unaudited)**

<b>Step</b>	<b>Incidents</b>	<b>Families</b>
Incidents/families identified	1,151	9,174
Nominations for assistance	815	7,957
Grants approved	---	7,410
Delivery of assistance completed	698	1,449
Grants closed	---	2,048

Source: IOM.

The Office of Inspector General (OIG) Country Office in Afghanistan conducted this review to follow up on indications of waste and fraud reported in a final program evaluation.<sup>1</sup>

<sup>1</sup> Checchi and Company Consulting, “Final Evaluation Report for the Afghan Civilian Assistance Program,” March 13, 2011.

The next section of this report includes details on the following findings:

- The implementing partner allowed improper handling of food and other commodities that were to be distributed to program beneficiaries. We found evidence of rodent infestation, improper storage practices, expired commodities, a lack of inventory records, and an unnecessary purchase of assistance kits. (page 4).
- Beneficiaries in Helmand Province could not be verified. The organization hired by IOM to verify the delivery of shelter grants totaling \$1.4 million believed that the unverifiable grants represented fraud by IOM employees (page 16).
- The implementing partner did not reimburse USAID after evidence of fraud was discovered. The alleged fraud by IOM field staff involved \$180,000 in program funds. (page 16).
- The implementing partner bought used vehicles that were ineligible for USAID financing. Contrary to the terms of its agreement with USAID, IOM spent \$3,437,000 on the vehicles for program beneficiaries without obtaining approval from USAID (page 17).
- Grants to beneficiaries were not closed (verified) in a timely fashion, and only slightly more than a quarter of the grants made since the beginning of the program have been verified (page 17).

To correct these problems, the report recommends that USAID/Afghanistan:

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 (page 15).
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 (page 15).
3. Recover from IOM the \$740,331 cost of Purchase Order 12, which was not needed to carry out program operations (page 15).
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 (page 16).
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 (page 16).
6. Determine the allowability of and recover, as appropriate, \$180,000 that was reportedly embezzled from the program (page 17).
7. Determine the allowability of and recover, as appropriate, \$3,437,000 that IOM spent to buy used vehicles without USAID approval (page 17).

Our evaluation of management comments is on page 18. The review scope and methodology are discussed in Appendix I, and management comments appear in Appendix II.

# REVIEW RESULTS

## Implementing Partner Allowed Improper Handling of Food and Other Commodities

As far as we could determine, 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 ([http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/crg/](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/crg/)) as criteria. These best practices include the following:

- Storing commodities in clean, adequately ventilated warehouses.
- Using pallets to keep food off the floor and away from dirt and moisture.
- Stacking commodities in an organized fashion that permits access, ventilation, and counting of stock.
- Periodically inspecting food and warehouses for signs of pest infestation and using baits and traps to control infestation.
- Closing or repairing open food bags and containers to prevent spillage.
- Segregating expired or contaminated food from food that is fit for consumption.
- Maintaining inventory records (e.g., accounting records, bin records, receiving reports, and issuance reports) and conducting periodic physical inventories to ensure reasonable accountability for commodities.
- Training and supervising warehouse staff to encourage professional performance.

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.

**Rodent Infestation.** In IOM's warehouses in Kabul and Lashkar Gah, there was evidence of extensive rodent infestation. Rats had gnawed open dozens of food bags and boxes, and we found rat feces inside bags of food (shown on the following pages). There was an overpowering smell of rodents throughout the warehouse. In Lashkar Gah, there were rat or mouse droppings on the floor.

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<sup>2</sup> Food Aid Management, *Generally Accepted Commodity Accountability Principles*, 1995. Generally Accepted Commodity Accountability Principles are professional standards related to the management, handling, tracking, and reporting on the use of food commodities for international development and relief. The principles are compiled and published by Food Aid Management, an association of private voluntary organizations engaged in international food aid programming.



**Above, bags of flour at the IOM food warehouse in Kabul contain rodent feces. Below are bags of flour gnawed open by rodents. (Photos by OIG, April 2011)**





**Above, rat droppings line the shelves of the IOM food warehouse in Kabul. Below, a bag of flour gnawed open by rats stands amid rat droppings and beans on the floor. (Photos by OIG, April 2011)**





**Above, rodent feces mix with beans scattered on the floor of the IOM food warehouse in Lashkar Gah. Below, in the same warehouse, blankets shredded by rodents and spill out of storage bags. (Photos by OIG, April 2011)**



**Improper Storage Practices.** In all of the warehouses we visited, we observed serious deficiencies in commodity storage and warehouse management practices.

In the IOM food warehouses in Kabul and Lashkar Gah, food was not stacked on pallets but on the floor, where it was easily contaminated by dirt and moisture. Bags of food were stacked in irregular piles that made it impossible to count the bags, which were stacked too closely together to permit access and air flow.



**This sewing machine box at the IOM Kabul warehouse crumbles after being gnawed by rodents. (Photo by OIG, April 2011)**



**Food items are improperly stacked on the floor at the IOM food warehouse in Kabul. (Photo by OIG, April 2011)**

In Lashkar Gah, food stacked too closely to unglazed windows and doors was exposed to the weather, and other foodstuffs were improperly packaged with nonfood items (shown in the following photos).





Above, food sacks can be seen stacked against open (unglazed) windows in Lashkar Gah. Below are soap and powdered milk that were packed together in metal boxes for long periods, leaving the milk unfit for human consumption. (Photos by OIG, April 2011)



Basic standards of sanitation and cleanliness were not met. Food that had spilled onto the floor from gnawed or ripped bags had not been swept up, spider webs and excessive dust were

present throughout the warehouses, and ventilation was inadequate. Expired and contaminated food items were not segregated from food that was fit for use.

In addition to improperly stored food items, other items were stored in disorganized piles or even kept outside, exposed to the elements (shown below and on the following pages).



**Wheelbarrows at IOM's Kabul warehouse form a tangle. (Photo by OIG, April 2011)**



**Wheelbarrows heaped against a wall at IOM's Lashkar Gah warehouse before the audit visit (left) are later stacked and covered (right). (Photos by Lashkar Gah security team and OIG, April 2011)**

IOM staff attempted to straighten up the stock before our visit to the IOM warehouse in Lashkar Gah. They placed plastic tarpaulins over a number of items, including wheelbarrows, before our visit to provide some protection from the elements. Still, it was evident that the wheelbarrows were badly rusted and would not be suitable for distribution.



**Above, assistance kits stacked outside a Uranus warehouse in Kabul stand among puddles from a heavy rain that fell the previous day. Below blankets at the same location are wet from the rain. (Photos by OIG, April 2011)**



**Expired Commodities.** Large quantities of flour, beans, rice, tomato sauce, and cooking oil had expired (as shown below and on the following page), with expiration dates as far back as 2004. IOM staff explained that some of the items had been stored for long periods, pending a decision by IOM management on how to dispose of the commodities. In other cases, staff members said, the items were already expired when they arrived at the warehouses, indicating that IOM did not have controls in place to ensure that commodities accepted and paid for met required quality standards.



Expired corn meal and oil are shown at the IOM food warehouse in Kabul. (Photo by OIG, April 2011)



Above, expired tomato sauce discolored from age is among the stored commodities shown below at Lashkar Gah warehouse. (Photos by OIG, April 2011)



IOM estimated that it had \$306,428 worth of expired food in five locations—Kabul, Asadabad, Kandahar, Lashkar Gah, and Kunduz—as shown in Table 2.

**Table 2. Estimates of Expired Food on Hand (Unaudited)**

<b>Location</b>	<b>Value (\$)</b>
Asadabad	4,540
Kabul	15,134
Kandahar	181,607
Lashkar Gah	95,344
Kunduz	9,803
<b>Total</b>	<b>306,428</b>

Source: IOM.

However, we believe this estimate is incomplete because of the amounts included in it for Kabul and Lashkar Gah; we observed larger quantities of expired items in Kabul and Lashkar Gah (although we could not determine exact quantities because of a lack of inventory records and because the food was stacked in a disorganized fashion that did not permit counting). Also, information provided by IOM and USAID field staff indicated that expired commodities were present at three locations not included in IOM's estimate: Herat, Paktya, and Paktika. For these reasons, we believe that IOM's estimate understates the value of expired commodities in IOM's supply chain.

The USAID agreement officer's technical representative independently estimated that 1,682 grocery kits in the supply chain contained commodities that were expired or near expiration. The cost of these kits was \$2,660,924. Because not all of the items in these kits were expired, this amount is best understood as an upper bound on the estimated cost of expired food in the food chain. Nevertheless, because of the inadequate storage conditions and extensive rodent infestation issues discussed in this report, we believe that large amounts of unexpired items are no longer fit for human consumption.

**Lack of Inventory Records.** Although we received several spreadsheets and e-mail messages that included estimates of the amount of food in IOM's supply chain, none of these estimates were supported by accounting records, bin records, or receiving and issuance reports to show actual amounts of commodities in IOM's warehouses. OIG staff requested inventory records of the number of items stored in the warehouses, but IOM staff members never were able to quantify exactly how many assistance kits were in their warehouses.

**Unnecessary Purchase of Assistance Kits.** After analyzing purchase orders and interviewing knowledgeable personnel, we concluded that IOM management had placed at least one order (Purchase Order 12) with Uranus that was not needed. This purchase order was for commodities totaling \$740,331. Before this order was signed, Uranus was already storing 4,821 assistance kits for which there was no room in IOM's warehouse, as shown in Table 3.

**Table 3. Uranus Warehouse Balances Before and After Purchase Order 12 (Unaudited)**

Description	Uranus Warehouse Balances Before Purchase Order 12	Quantity in Purchase Order 12	Balances After Purchase Order 12
Home kits	744	300	1,044
Tailoring kits	1,458	900	2,358
Education kits	2,026	1,200	3,226
Livestock kits	51	300	351
Agriculture kits	542	300	842
<b>Total</b>	<b>4,821</b>	<b>3,000</b>	<b>7,821</b>

Source: CTG Global.

Note that this analysis does not include kits stored in IOM warehouses, for which no inventory records were available.

The explanation given by IOM staff was that IOM wanted to build up inventories in advance of an expected increase in demand as the program neared completion. However, given the large amounts of stock already on hand, placing this order was, at a minimum, a poor business decision. Testimonial evidence provided by a program official indicated that IOM management was told that Purchase Order 12 was not needed before it was placed.

According to IOM, the instances of poor storage and handling of commodities discussed above were caused, at least in part, by a lack of personnel who were experienced in food management. An important contributing cause, in our opinion, was a lack of oversight by IOM management and USAID/Afghanistan. To correct the problems, we make the following recommendations.

**Recommendation 1.** *We recommend that USAID/Afghanistan instruct the International Organization for Migration 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.*

**Recommendation 2.** *We recommend that 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.*

**Recommendation 3.** *We recommend that 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.*

## Beneficiaries in Helmand Province Could Not Be Verified

A report commissioned by IOM to verify shelter assistance that was reportedly delivered to beneficiaries in two districts in Helmand Province concluded that 34 percent of the beneficiaries could not be verified. According to the report by an independent nonprofit organization, these cases in which beneficiaries could not be identified likely represented fraud rather than difficulties in identifying beneficiaries who had moved or been displaced by conflict, etc. Moreover, the report's authors believed that program personnel were actively working to undermine the results of the investigation. In our opinion, these problems occurred because of inadequate oversight of IOM field staff, which in turn was due in large part to violence in the program's target areas. According to information obtained by the report's authors, the unverifiable grants in the Garmsir and Gereshk Districts of Helmand Province involve \$1,360,800 in USAID funds. This amount should be returned to USAID.

Because of security restrictions, OIG staff members were not able to visit several warehouses or visit beneficiaries to verify the receipt of assistance under the program. Therefore, we recommend that a financial audit of the program be undertaken.

***Recommendation 4.** We recommend that 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.*

***Recommendation 5.** We recommend that 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.*

## Implementing Partner Did Not Reimburse USAID After Evidence of Fraud Was Discovered

According to a USAID field program officer, field staff pocketed \$180,000 in program funds that were supposed to pay for assistance to people who suffered losses caused by military operations against insurgents. The staff reportedly embezzled the funds by falsifying documentation to make it appear that the funds were used to buy livestock that was distributed to program beneficiaries.

As a corrective action, IOM terminated the staff members' employment. After the intended beneficiaries complained to a village *shura*,<sup>3</sup> the *shura* reportedly obtained reimbursement of the \$180,000 from three individuals and distributed these funds to individuals in the village as the *shura* thought best. No records were kept of recipients and amounts, and according to the USAID field program officer, many of the recipients had not suffered any losses that would have made them eligible for assistance under the program. The informal way in which the situation was resolved, though it had the advantage of engaging local leaders and institutions, did not comply with the program's eligibility requirements for assistance.

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<sup>3</sup> *Shuras*, or consultative groups, are a traditional governance institution in Afghanistan.



**Recommendation 6.** *We recommend that USAID/Afghanistan determine the allowability of and recover, as appropriate, \$180,000 that was reportedly embezzled from the program.*

## **Implementing Partner Bought Used Vehicles That Were Ineligible for USAID Financing**

Sections C.16(3)(ii) and (v) of the standard provisions of USAID's agreement with IOM state that IOM will not purchase motor vehicles or used equipment with program funds without USAID's approval. However, IOM used approximately \$3,634,500 in program funds to buy used motor vehicles for program beneficiaries. Prior USAID/Afghanistan agreement officers approved a total of \$197,500 in used vehicles. In our opinion, turnover of USAID staff may have contributed to inconsistent follow-up on the issue. As a result, USAID funds were used for ineligible commodities.

**Recommendation 7.** *We recommend that 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.*

## **Grants Were Not Closed in a Timely Fashion**

In response to a previous performance audit of the program,<sup>4</sup> USAID/Afghanistan and IOM agreed to close grants—i.e., verify delivery of assistance—within 6 months. Nonetheless, according to IOM records, only 2,048 (26 percent) of the 7,410 grants made since the program began in 2007 were closed as of April 24, 2011. This problem assumes greater urgency as the program nears its expected completion date in September 2011. A number of problems contributed to the backlog of unverified grants, including insecurity in the areas where the program operates and fraud involving nonexistent beneficiaries, beneficiaries moving to other parts of Afghanistan, just to name a few. As a result, USAID lacks adequate assurance that Afghan Civilian Assistance Program funds have reached the intended beneficiaries.

We are not making a recommendation regarding grant closeout because of the short time remaining under the agreement and our Recommendation 5 that USAID/Afghanistan arrange for a financial audit of the program.

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<sup>4</sup> OIG, "Audit of USAID/Afghanistan's Afghan Civilian Assistance Program," Report No. 5-306-10-004-P, December 15, 2009.

# EVALUATION OF MANAGEMENT COMMENTS

OIG has reviewed the mission's response to the draft report and determined that final action has been taken on Recommendation 1, and a management decision has been reached on Recommendation 5. No management decisions have been reached on Recommendations 2, 3, 4, 6, and 7. The following paragraphs provide our evaluation of mission comments on each recommendation.

**Recommendation 1.** The mission agreed with and has taken several actions to address Recommendation 1, that the mission 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. 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 on Recommendation 1.

**Recommendation 2.** The mission agreed with Recommendation 2—that it determine the allowability of and recover as appropriate up to \$2,660,924 for the cost of stored food that is no longer fit for human consumption—and provided a list of destroyed food items valued at \$164,238.63 from five warehouses. 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. Based on these actions, final action has been taken on Recommendation 2.

**Recommendation 3.** The mission disagreed with Recommendation 3, that it determine the allowability of and recover as appropriate \$740,331 for the purchase of unneeded commodities under Purchase Order 12 with Uranus Trading and Logistics Company. 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 on Recommendation 3, and we still recommend that the agreement officer determine the allowability of the kits purchased under Purchase Order 12.

**Recommendation 4.** The mission agreed with Recommendation 4—that it determine the allowability of and recover, as appropriate, \$1,360,800 in unverified shelter assistance grants in Helmand Province—and will work with IOM to clarify why the shelter assistance grants in Helmand Province 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.

**Recommendation 5.** The mission agreed with Recommendation 5, that it arrange for a financial audit of the program, 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.

**Recommendation 6.** The mission partially agreed with Recommendation 6, 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.

**Recommendation 7.** The mission agreed with Recommendation 7, 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.

# SCOPE AND METHODOLOGY

## Scope

OIG's Country Office in Afghanistan conducted this review in accordance with the evidence and documentation standards in *Government Auditing Standards*, Paragraph 7.55 and Paragraphs 7.77 through 7.84. Those standards require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, in accordance with our review objective. We believe that the evidence obtained provides that reasonable basis.

In response to a request from USAID/Afghanistan, OIG conducted this review to follow up on indications of waste and fraud reported in a final program evaluation commissioned by USAID/Afghanistan. The review was conducted in Afghanistan from March 31, 2011, through June 16, 2011, and covered grant activities from April 2007 through June 2011.

We conducted fieldwork at USAID/Afghanistan and at the implementing partner's headquarters office in Kabul. Additionally, we made site visits to the implementing partner's United Nations Office for the Coordination of Humanitarian and Economic Assistance warehouse, IOM Kabul warehouse, the Lashkar Gah Regional Office in Helmand Province, and Uranus Trading warehouse in Kabul.

Security restrictions limited the areas we could visit. Security restrictions prevented us from conducting planned visits to other warehouses and prevented us from visiting beneficiaries to verify receipt of assistance under the program. Because of these restrictions on the scope of the review, we limited our conclusions to the items we could review.

## Methodology

During the review, we performed the following steps:

- Reviewed relevant prior audit reports, assessments, and evaluations on similar programs in Iraq and Afghanistan.
- Interviewed staff at USAID/Afghanistan and the implementing partner's main country office to gain an understanding of the program and the relevant controls and procedures.
- Analyzed grant proposals, correspondence documenting the clearance and approval of grants, grant agreements, inventory reports, and photographs and other evidence showing the receipt of goods by grantees.
- Examined items included in assistance kits, reviewed expiration dates of commodities and other food items, and compared items with contract specifications.
- Conducted a market price comparison to evaluate the reasonableness of prices paid by IOM.
- Visited warehouses operated by IOM and Uranus to inspect assistance kits and assess the adequacy of storage.

- Obtained a list of all assistance grants disbursed in cash from the beginning of the program.
- Obtained an understanding of the supervisory controls over the staff in Kabul and in field locations to determine whether there were adequate internal controls over program operations in Afghanistan.
- Obtained documentation on an alleged embezzlement case involving program funds.

# MANAGEMENT COMMENTS



## MEMORANDUM

**TO:** Nate Lokos, OIG/Afghanistan Director

**From:** Dr. Jeffrey Ashley, Acting Mission Director /s/

**DATE:** August 16, 2011

**SUBJECT:** Review of USAID Afghanistan's Afghan Civilian Assistance Program (Report Number F-306-11-005-S)

**REFERENCE:** Tim Cox/S. Ken Yamashita memo dated July 17, 2011

Thank you for providing the Mission with the opportunity to review the subject draft audit report. Discussed below are the Mission's comments on the findings and recommendations in the report.

**Summary Finding No. 1:** The report notes on page 3, first bullet that *"The implementing partner allowed improper handling of food and other commodities that were to be distributed to program beneficiaries. We found evidence of rodent infestation, improper storage practices, expired commodities, and a lack of inventory records."* Based on the review results discussed in detail on pages 4 through 15, OIG/Afghanistan is issuing three recommendations (Recommendations 1 – 3) to correct the problems noted.

**Mission Comments:** USAID/Afghanistan acknowledges IOM failed to provide sufficient supervision and warehouse staff and failed to incorporate proper warehouse management systems, including inventory controls. Other program implementation delays affected commodity expiration, such as:

- 1) Complicated corroboration of beneficiary eligibility procedures -- each beneficiary requires a military confirmation and a local government confirmation of an incident. The two confirmations must be corroborated prior to distribution of assistance.
- 2) Lack of communication channels to contact beneficiaries in a timely way.
- 3) Lack of transportation to ACAP warehouses for the distribution of kits in a timely manner.

IOM subcontracted the procurement and delivery of the standard assistance kits to 11 field warehouses in April 2010. USAID received information in October 2010 of improper handling and other commodity-management issues and began discussions with IOM to address the issues. In December 2010, IOM requested approval from USAID to dispose of some commodities but several challenges remained. The dialogue on disposal methods, questions relating to Afghan

laws, and incomplete inventory lists were among issues that required resolution. After several additional months, USAID instructed ACAP to correct the identified operating deficiencies through formal letters issued on April 14, April 26, and May 2, 2011.

***Recommendation 1:*** *We recommend that USAID Afghanistan instruct the International Organization for Migration 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.*

**Mission Comments:** USAID/Afghanistan concurs with this recommendation.

**Actions Taken:**

- 1) The USAID Agreement Officer (AO) instructed IOM through a letter dated April 14, 2011 (Attachment 1) for cleaning the warehouses and a letter dated May 2, 2011 (Attachment 2) for disposing expired food items.
- 2) As of July 22, 2011, IOM has disposed of food in its warehouses that is no longer fit for human consumption. Documentation is on file for all the food disposed (see Attachments 3a and 3b).
- 3) Warehouses have been cleaned and rodent infestation is controlled through the use of rat traps. (See Attachments 4a and 4b – IOM email confirmation and photos of cleaned warehouses.)
- 4) IOM is instituting a “just-in-time” delivery system for 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. Variations or inaccuracies in stock records have been corrected. The Warehouse Operations Manual developed by IOM in May 2011 is now in use. (See Attachment 5).

**Management Decision:** The Mission deems we have reached a management decision on Recommendation 1, and have completed the final actions to fully address the recommendation. The Mission, therefore, requests OIG’s concurrence to the management decision and closure of Recommendation 1.

***Recommendation 2:*** *We recommend that 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.*

**Mission Comments:** The Mission concurs with the OIG’s recommendation. The report indicates all the commodities in question were unfit for human consumption and that USAID must instruct IOM to dispose of these commodities appropriately. Nonetheless, the estimated amount appears to have been derived from the cost of the entire inventory of kits and not specifically from perishable goods.

**Actions Taken/Planned:** In response to the OIG’s recommendation, USAID requested IOM provide an itemized report of expired stored food items. As a result, IOM submitted a report stating some of the food items contained in the kits were within the expiration dates and were

eligible for distribution. Furthermore, IOM conducted a physical count of all the food items in stock, and documents submitted to USAID show grocery kits valued at \$164,238.63 only (as opposed to \$2.661 million) had expired, were damaged, and were unsafe or questionable for human consumption and were destroyed in accordance with Afghan laws (See Attachment 3b).

In addition, IOM confirmed no expired food items or damaged items were distributed, and all remaining grocery kits fit for consumption were distributed with no kits remaining in the warehouse.

USAID's review of the list of commodities disposed indicates two food items originated from a prohibited source.

As a result, USAID has included in its audit management plan a financial audit of ACAP to begin on or about September 15, 2011. Development of the audit scope of work is in progress, after which contracting for the audit services will be initiated. A purchase order with the selected audit firm is expected to be awarded in early September 2011.

Based on the results of the financial audit, the Agreement Officer will determine the allowability of and recover, as appropriate, unsupported questioned costs.

**Management Decision:** The Mission deems appropriate action has been taken to address Recommendation 2, and, therefore, requests OIG/Afghanistan's concurrence that we have reached a management decision on this recommendation.

**Target Completion Date:** January 31, 2012

**Recommendation 3:** *We recommend that 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.*

**Mission Comments:** The Mission does not concur with this recommendation. ACAP was distributing assistance kits aggressively from February through July 2011, as per the ACAP distribution plan. Without the additional inventory on hand, ACAP would not be able to assist beneficiaries before identifying a new kit supplier. USAID considers IOM's execution of Purchase Order #12 in 12/2010 as part of appropriate inventory management to assure continuation of distribution activities.

IOM did not base its decision to award Purchase Order #12 for inventory items totaling \$740,331 on a numerical analysis of beneficiary demand, but, rather, on the potential refusal of the current vendor, Uranus, to guarantee future kit procurements. Such refusal potentially would have left ACAP without a kit supplier resulting in kit shortages and leading to delivery suspension to beneficiaries. If Uranus defaulted, IOM would have been required to seek a new supplier.

The draft report states on page 15 that "placing this order was, at a minimum, a poor business decision." It should be noted that IOM's procedures for large procurement contracts include activity approvals from the Field Procurement Unit in Manila, Philippines, and by IOM Legal in Geneva, Switzerland, before submission to USAID for approval. Given the complexities of the logistics transport chain in Afghanistan and the lengthy procurement process, IOM program management determined maintaining additional inventory was appropriate to avoid a significant gap in service delivery, should we lose the main supplier of goods. All the kits procured from Uranus, including those from Purchase Order #12, have been delivered to the intended beneficiaries.



**Management Decision:** The Mission believes the circumstances explained above justify IOM's procurement of additional inventory; thus, the Mission requests OIG reconsider this recommendation.

**Summary Finding 2:** The draft report notes on page 3, second bullet that "*Beneficiaries in Helmand Province could not be verified. The organization hired by IOM to verify the delivery of shelter grants totaling \$1.4 million believed that the unverifiable grants represented fraud by IOM employees.*" Details of the findings are discussed on page 16 based on which two recommendations (Recommendations 4 and 5) are being issued by OIG/Afghanistan.

**Mission Comments:** IOM contracted SHAL, a non-governmental organization (NGO), to conduct an assessment and verification review of eligible beneficiaries receiving ACAP assistance in 2008. USAID notified IOM on April 7, 2011, to submit a summary of the SHAL analysis assessment and to identify follow on actions. IOM submitted the report to USAID on April 19, 2011.

The results accounted for 101 of 151 families (66.8%) in Gereskh district and 517 of 922 families (56%) in Garmsir district. The report stated that ACAP likely fabricated many of the missing family names for reasons of fraud. The report also identified cases of confirmed names, but questions of identification-card tampering arose. SHAL recorded the questionable beneficiary caseload and recorded those families not currently residing in the area. SHAL also identified individuals who said they received ACAP assistance but were not on any of the village lists.

The ACAP program faces implementation challenges similar to those of other organizations operating in Afghanistan. Despite a large military presence during the last three years, Garmsir and Gereskh districts continue to have heavy insurgent presence, and security for local populations is lacking. Adding to the complexities of beneficiary identification are the highly fragmented nature and intense local rivalries of the communities involved. It is important to note the difficulties of conducting a methodological approach for this or any monitoring or evaluation effort. Safety concerns of the interviewers and interviewees hamper data collection. Finally, Afghan identification cards have no or old or damaged pictures that bear little resemblance even to a legitimate holder. Registered names can differ from known names, and many Afghans purposely avoid identification and are suspicious of unknown interviewers asking questions.

SHAL specifically in its monitoring report urged readers to apply discerning caution when using the information in the report, as other factors affect also population and beneficiary movements.<sup>1</sup> USAID needs additional information to confirm whether lack of beneficiary verification is indeed the result of fraud.

**Recommendation 4:** *We recommend that 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.*

**Mission Comments:** The Mission concurs with this recommendation and will work with IOM to clarify reasons the \$1,360,800 in shelter assistance grants in Helmand province could not be verified. The Mission is holding IOM accountable for the funds used and will recoup funds based on an IOM-completed cross check against SHAL's monitoring and evaluation report. The

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<sup>1</sup> ACAP Monitoring Report, NGO SHAL, March 2011, pages 3-5.

Mission understands the areas in and around Helmand province continue to be kinetic, and challenges presented have made it difficult for ACAP staff and SHAL to find and accurately verify the recipients.

**Actions Taken/Planned:** The Mission requested a summary of IOM's findings and analysis from SHAL's assessment. IOM's summary also will identify which individuals not entitled to assistance received commodities or cash. IOM is expected to forward the report by mid-September 2011. The Mission will then review the report, based on which the Agreement Officer will make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate.

**Target Management Decision Date:** November 30, 2011. The Mission will then inform OIG/Afghanistan of its management decision.

***Recommendation 5:** We recommend that 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.*

**Mission Comments:** The Mission concurs with this recommendation. The standard provision Section C.8, Audit and Records of the IOM agreement, states "the grantee agrees to make available to USAID or the Comptroller General of the United States all records and documents that support expenditures made under this program." IOM has agreed to an audit.

**Actions Taken/Planned:** USAID has included in its audit management plan a financial audit of ACAP to begin on or about September 15, 2011. Development of the audit scope of work is in progress after which we will begin contracting for the audit services. A purchase order with the selected audit firm is expected to be awarded in early September 2011.

**Management Decision:** The Mission deems it has taken appropriate action to address Recommendation 5 and, therefore, requests OIG/Afghanistan's concurrence that we have reached a management decision on this recommendation.

**Target Completion Date:** January 31, 2012

**Summary Finding 3:** The draft report notes on page 3, third bullet that "*The implementing partner did not reimburse USAID after evidence of fraud was discovered. The alleged fraud by IOM field staff involved was \$180,000 in program funds.*" This finding, **based on information from a USAID field program officer**, resulted in OIG's issuance of the following recommendation:

***Recommendation 6.** We recommend that USAID/Afghanistan determine the allowability of and recover, as appropriate, **\$180,000** that was reportedly embezzled from the program.*

**Mission Comments:** The Mission concurs with this recommendation but not at the amount stated. This case involved assistance to 40 beneficiaries in Chora village, Uruzgan, in May 2010. IOM states that \$130,000 was stolen, was eventually recovered, and then distributed in cash – in lieu of in-kind assistance, at the request of the beneficiaries. In effect, the funds were returned to the program and used for program purposes.

**Actions Taken/Planned:** The Mission currently is reviewing the documentation provided by IOM to determine the **actual** amount of funds misappropriated and recovered, and the validity of the disposition of recovered funds. Based on the review results, the Agreement Officer will

make a final determination on the allowability of the questioned costs and initiate recoupment of funds, as appropriate.

**Target Management Decision Date:** November 30, 2011. The Mission will then inform OIG/Afghanistan of its management decision.

**Summary Finding 4:** The draft report notes on page 3, bullet 4 that “IOM bought used vehicles that were ineligible for USAID financing. Contrary to the terms of its agreement with USAID, IOM spent \$3,437,000 on the vehicles for program beneficiaries without obtaining approval from USAID.” The discussion of the finding on page 17 cites the standard provision that was not complied with by IOM, resulting in OIG’s issuance of the following recommendation:

**Recommendation 7.** *We recommend that 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.*

**Mission Comments:** The Mission concurs with this recommendation and is providing additional information below regarding the circumstances concerning the procurement of used vehicles.

ACAP program strategy includes business support efforts, and IOM stated the business-support packages help families generate income when the primary household breadwinner is lost. In 2008, IOM identified used-vehicle purchases as a productive way to help encourage families to become self-supporting and to improve access for beneficiaries and communities in remote areas to markets, medical facilities, and governmental offices.

USAID’s Agreement Officer notified IOM on November 30, 2010, to provide documented approvals for purchases of vehicles as required by the ACAP agreement but did not receive appropriate documentation. The AOTR then instructed IOM to stop the purchase of vehicles upon learning that ACAP was purchasing vehicles as part of its assistance packages without the required approvals.

In discussions with IOM regarding this finding, IOM contends an agreement existed between USAID and IOM to expedite approvals of grant nominations. USAID found no documented proof the former USAID Agreement Officers or AOTRs approved or disapproved requests from ACAP to purchase additional vehicles or requests from IOM for approvals. This lack of approval is in violation of ADS 303, 308, and 312, setting forth requirements relating to the procurement or financing of motor vehicles, including restrictions related to the source/origin/nationality (S/O/N) of the vehicles.

Additionally, when IOM purchased the vehicles, a blanket S/O/N waiver was in place in Afghanistan. These waivers established Geographic Code 935 for the supply of goods and services, including motor vehicles, however, USAID’s procurement policies and procedures as per the agreement with IOM still applied, and a prior approval from USAID’s Agreement Officer remained in place. All of these factors caused confusion, possibly resulting in the improper procurement/distribution of vehicles.

**Actions Taken/Planned:** At the request of USAID’s Office of Acquisition and Assistance Director on 06/21/2011 (Attachment 6), IOM provided on 07/25/2011 pertinent documentation on the questioned costs of \$3,437,000.

The Mission currently is reviewing the documentation based on which the Agreement Officer

will make a final determination on the allowability of this cost. USAID will initiate recovery action, as appropriate, through the issuance of a bill for collection.

**Target Management Decision Date:** November 30, 2011. The Mission will inform OIG/Afghanistan as soon as management decision is made.

**Summary Finding 5:** The draft report on page 3, bullet 5 notes that “*Grants to beneficiaries were not closed (verified) in a timely fashion, and only a little more than a quarter of the grants made since the beginning of the program have been verified.*” The discussion on page 17 further states that “*there is inadequate assurance that Afghan Civilian Assistance Program funds have reached the intended beneficiaries.*” USAID notes that OIG is not issuing any recommendation related to this finding. Additional context is provided below to further explain the close-out process and what actions USAID has taken to address the issue.

**Mission Comments:** IOM did not focus on administratively closing grants, which was contingent upon the completion of a monitoring report for each grant. Instead, IOM placed program emphasis on investigating incidents, identifying and validating beneficiary cases for assistance, and distributing assistance kits for beneficiaries. Approved grants often included several families receiving different packages, and grant closure is not warranted until ACAP completed final monitoring for every family on that grant. The grant matrix reflects an inordinate number of open grants in total, since all the grants must pass through eight different phases of the grant assistance cycle prior to closure.

USAID modified the ACAP agreement in March 2011 (Attachment 7) to improve responsiveness and transparency of the grant process by streamlining the package of assistance to all but one standard home kit and a choice of one of three livelihood kit options for new beneficiaries and the program assistance cycle. These procedures expedited new grant closures to enable IOM to close out every grant by the end of the award.

cc: OAPA:HDorcus/ASalyer

Attachments:

1. AO letter dated 04/14/2011 regarding warehouse
2. AO letter dated 05/02/2011 regarding expired food items
- 3a. IOM email dated 7/22/2011 re disposal of food items
- 3b. IOM Excel worksheet showing cost of grocery kits disposed
- 4a. IOM email dated 6/23/2011 confirming warehouses sanitized
- 4b. Photos of cleaned warehouses
5. IOM Warehouse Manual and Forms dated May 2011
6. OAA letter to IOM dated 6/21/2011 regarding used vehicles
7. IOM Agreement Modification No. 306-A-00-07-00156-00 dated 3/1/2011

# PROGRAM ASSISTANCE CYCLE

The steps in the assistance cycle are explained below.

**1. Incident Verification.** Program staff members learn of incidents by monitoring national and international media and confirming each incident with the military, the United Nations Assistance Mission in Afghanistan (UNAMA), the USAID Provincial Reconstruction Team, and local authorities. According to program officials, two sources—one international—are needed to confirm that an incident occurred. The incident verification process takes an average of 8 weeks.

**2. Nomination of Incidents.** Verified incidents that fall within the scope of the program objectives are written on a Nomination Form accompanied by supporting documentation, and signed by a *shura* or relevant Afghan authority. This process takes from 4 weeks to several months. In some cases, OIG observed that this process took several years. The process itself has been problematic because flaws in the documentation—such as faulty dates and conflicting reports on incidents—hold up the approval. When there are mistakes or missing supporting documentation, headquarters personnel often do not apprise field staff members of the problems for weeks or months, further delaying the delivery of assistance.

**3. Identification of Beneficiaries.** According to the IOM implementing plan, potential beneficiaries are identified by field staff in close cooperation with community leaders, local government representatives, and other relevant stakeholders on the ground, such as the Afghanistan Independent Human Rights Commission and UNAMA. However, the evaluation team has observed that in most instances only local authorities and staff identify beneficiaries. This process is labor intensive and may take longer if beneficiaries are scattered throughout different villages. It also depends on the number of beneficiaries affected by the incident.

**4. Family Assessment.** Program staff members meet individually with affected families or communities to assess their needs. This requires a long interview, in which the families' skills and resources are evaluated to determine their individual assistance package. Program staff members fill out a Family Assessment Form and are expected to provide information about the assistance package. For community beneficiaries, staff members fill out the Community Assessment Form in consultation with *shura* members and relevant government authorities.

**5. Grant Approval.** Once assistance needed or requested has been determined with the families and communities, the information is put into a database. Family members who have been affected by the same incident are included in the same grant, with a maximum of ten families per grant, which is then signed by the program manager at Kabul headquarters. Before January 2010, the process took an average of 20 weeks; in 2010, the process took an average of 10 weeks.

**6. Delivery of Assistance.** Program literature states that the program develops the assistance package in consultation with the beneficiaries, according to their needs. Examples of assistance include vocational training, establishment of small businesses with combined microcredit opportunities, medical assistance in the form of food for medicine, a literacy program, education support to school-age children, provision of livestock, provision of building materials, assistance in restoring livelihood sources, and rebuilding of community infrastructure. The average time between the approval of a grant and delivery of assistance is 9½ weeks.

7. **Monitoring.** In September 2009, a new policy was introduced to keep grants open for 6 months rather than 1 year, as suggested by a previous OIG report. The field staff members conduct regular monitoring visits to check on the progress and write a monitoring report. During these visits, beneficiaries have the chance to bring up any issues or problems they may be facing. Field staff members review the assistance being provided and recommend changes as appropriate in a grant amendment. IOM field staff members conduct monitoring two to three times during the 6-month timeline.

8. **Closing of Grant.** On completion of the grant, field staff members visit the beneficiary for a final time and write the final report. Field staff members provide headquarters with all the documentation to close the grants, including photos, the final monitoring report, all vouchers, and all signed documents. Headquarters personnel, after receiving this information, close the grant.