



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S AFGHANISTAN STABILIZATION INITIATIVE FOR THE SOUTHERN REGION

AUDIT REPORT NO. F-306-12-001-P
NOVEMBER 13, 2011

KABUL, AFGHANISTAN



Office of Inspector General

November 13, 2011

MEMORANDUM

TO: USAID/Afghanistan Mission Director, S. Ken Yamashita
USAID/DCHA/OTI Director, Robert Jenkins

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

SUBJECT: Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for the Southern Region (Report Number F-306-12-001-P)

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

This report contains 18 recommendations to assist USAID/Afghanistan and USAID/Office of Transition Initiatives (OTI) in improving implementation of the Afghanistan Stabilization Initiative for the Southern Region program. Based on the mission and USAID/OTI's joint comments and supporting documents, final action has been reached on Recommendations 3, 8, and 16. Management decisions have been reached on Recommendations 1, 2, 4, 5, 6, 7, 10, 11, 12, 15, 17, and 18, while management decisions are pending on for Recommendations 9, 13, and 14. Please advise our office within 30 days of actions planned or taken to implement Recommendations 9, 13, and 14.

A determination of final action for Recommendations 1, 2, 4, 5, 6, 7, 10, 11, 12, 15, 17, and 18 will be made by the Audit Performance and Compliance Division on completion of the proposed corrective actions.

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

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Abbreviations

The following abbreviations appear in this report:

ASI-SR	Afghanistan Stabilization Initiative for the Southern Region
COTR	contracting officer’s technical representative
FAR	Federal Acquisition Regulation
FPM	field program managers (OTI)
FY	fiscal year
OIG	Office of Inspector General
PRT	provincial reconstruction team
USAID/OTI	USAID/Office of Transition Initiatives

SUMMARY OF RESULTS

Improving stability in the conflict-prone southern provinces of Afghanistan—Kandahar and Helmand—involves building confidence and trust between the Government of the Islamic Republic of Afghanistan and its citizens. Activities that build confidence and trust include local government officials providing services that the communities need and delivering these services in a timely manner.

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. According to USAID/Afghanistan’s financial records, as of April 30, 2010, USAID/OTI had obligated \$91.1 million and disbursed \$66.9 million in ASI-SR program funds.

USAID’s Office of Inspector General (OIG)/Afghanistan Country Office conducted this audit to determine whether ASI-SR was achieving its primary goal of creating conditions that build confidence between communities and the Afghan Government through district or local officials.

Security conditions and bad weather prevented the audit team from visiting project sites in Kandahar City, Lashkar Gah, and Gamsir District. The audit team was able to visit 11 other project sites; however, these sites cannot be considered representative of all ASI-SR projects. As a result, the team was not able to reach conclusions about whether the program as a whole was achieving its goal. A recent third-party evaluation of 15 projects found mixed results: eight projects met community needs, four somewhat met community needs, and three did not meet community needs at all (Table 1).

Table 1. Results of Third-Party Surveys About 15 Finished Projects

Question	Yes	No	Somewhat	To Be Determined
Did projects meet community needs?	8	3	4	0
Did projects improve local governance?	8	2	4	1
Did projects increase stability?	0	0	3	12

Source: Altai Consulting.

These mixed results were consistent with the audit team’s observations and discussions with program stakeholders. The Audit Findings section of this report discusses the following findings:

- *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/OTI oversight, staffing difficulties, and poor-quality subcontractors (page 4).

- *Program budget was not properly managed.* ASI-SR 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 (page 7).
- *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 (page 9).
- *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. 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 (page 10).
- *Security costs were unreasonable.* Chemonics incurred and billed USAID/OTI for security costs totaling \$6.5 million. These costs included (1) protective details for staff stationed at forward operating bases and PRTs, and (2) armored vehicle leases that exceeded needs and cost more than other available leases (page 10).
- *Chemonics’ cash controls required improvement.* Contrary to best practices issued by USAID/Afghanistan and to its own internal policies, Chemonics was using cash to make large tax payments to the Afghan Government because it was having trouble completing wire transfers. In May 2011, a Chemonics employee sent with \$62,398 to pay taxes disappeared. Although most of the money was ultimately recovered, this incident exposed a weakness in Chemonics’ internal controls (page 12).
- *Reported results were inaccurate.* Chemonics reported planned accomplishments instead of reporting actual results to USAID/Afghanistan, significantly overstating its actual accomplishments (page 12).
- *USAID/OTI did not complete a contractor performance review.* USAID/OTI did not complete a required contractor performance review of Chemonics (page 13).

The report recommends that:

1. USAID/OTI direct Chemonics to develop detailed work plans for program implementation based on the district stability framework and determine the adequacy of these plans (page 7).
2. USAID/OTI develop objective standards for evaluating Chemonics’ performance, including standards for timeliness of program implementation (page 7).
3. USAID/OTI develop formal communication protocols to facilitate interaction and communication between USAID/OTI managers and Chemonics officials. (page 7).

4. USAID/OTI prepare activity manager designation letters describing the responsibilities of field program managers (page 7).
5. USAID/OTI provide training for its field program managers to include roles and responsibilities as well as how to implement the program (page 7).
6. USAID/OTI instruct Chemonics to balance its program grants portfolio to include more small-scale activities (page 7).
7. USAID/OTI formally delegate contracting officer's technical representative (COTR) responsibilities to the USAID/OTI Regional Representative in Kandahar (page 7).
8. USAID/OTI implement budgetary controls at the district level to manage existing and future grants (page 9).
9. USAID/OTI recover, as appropriate, the \$12,200 spent for supporting other agencies under the ASI-SR program (page 9).
10. USAID/OTI develop benchmarks to assess Chemonics' progress in closing out completed grants (page 9).
11. USAID/OTI issue guidance to Chemonics describing time frames for project closeout (page 9).
12. USAID/OTI direct Chemonics to assist Afghan Government officials in developing a local branding plan (page 10).
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. (page 10).
14. USAID/OTI determine the allowability of \$6.5 million in security costs and recover costs determined to be unallowable (page 12).
15. USAID/OTI instruct Chemonics to develop compensating controls for use in conjunction with cash payments (page 12).
16. USAID/OTI instruct Chemonics to report actual results in its progress reports (page 13).
17. USAID/OTI develop procedures for validating reported results on a periodic basis (page 13).
18. USAID/OTI complete all required contractor performance reviews under the ASI-SR contract (page 14).

Detailed findings follow. Our evaluation of management comments is on page 15. The audit scope and methodology are described in Appendix I. USAID/Afghanistan's comments (without attachments) are in Appendix II.

AUDIT FINDINGS

Program Implementation Was Delayed

According to the contract, ASI-SR activities were to have short-term horizons, usually measured in months. USAID/OTI staff expected that activities implemented under grants would take 90 days or less to implement, although this expectation was not reflected in USAID's contract with Chemonics. However, through April 30, 2010, it took the implementing partner an average of 160 days to complete projects, with nine projects taking more than a year to complete. Of 219 completed projects implemented under grants, 171 took longer than the 90 days USAID/OTI thought was a reasonable period for completing activities.

Delays in implementing activities occurred during the approval, start-up, and implementation phases. Table 2 summarizes the average number of days each phase took.

Table 2. Average Days for Project Phases (audited)

Phase	Days
Approval	44
Start-up	31
Implementation	160

Numerous factors contributed to the implementation delays, including (1) a lack of timeliness standards to evaluate Chemonics' performance, (2) security conditions, (3) a lack of district-level work plans, (4) a lack of adequate USAID/OTI management oversight, (5) a lack of understanding by OTI field staff of their roles and responsibilities as activity managers, (6) difficulties in recruiting and retaining contractor staff, (7) excessive emphasis on large-scale infrastructure projects, (8) delays in OTI grant approvals, (9) OTI staffing issues, (10) delays in subcontract bidding processes, (11) poor quality work done by subcontractors, and (12) problems coordinating with Afghan Government officials.

Timeliness Standards. USAID/OTI stated that Chemonics was slow to implement programs; however, USAID/OTI had no objective performance measures in place to assess how far the program was behind schedule. If performance measures had been in place, USAID/OTI could have addressed delays sooner.

Security. Security affected the program in several ways. In April 2010, as Chemonics was entering the start-up phase of the program, a suicide bomber attacked its main office in Kandahar City with a vehicle-borne improvised explosive device. After the attack, nearly all of Chemonics' employees resigned, and any momentum Chemonics had gained in the first 9 months of the program was lost. This incident affected operations for 2 to 3 months, since Chemonics had to recruit new staff and establish new temporary facilities following the attack.

In addition, the security situation in the southern regions in which Chemonics operates was constantly changing. Several projects were planned in locations that were thought to be safe but then proved insecure, forcing either cancellation or delays in project implementation. For example, in one district, two projects supporting a drug treatment center were canceled because of insurgent activities, while in another district; a project to clean 9 kilometers of canal was

canceled. A project in yet another district experienced delays when the deteriorating security situation led a short-term consultant to withdraw from an assignment.

As the program moves forward, Chemonics officials are concerned that the elements targeting local government officials may have an impact on the willingness of these officials to engage in further development projects.

Work Plans. USAID/OTI field program managers (FPMs) indicated that they did not have detailed work plans covering their districts. They stated that they were told to develop concepts for grants but were not given any clear guidance as to how the grants should relate to an overall plan or strategy for their districts. In retrospect, USAID/OTI officials agreed they should have instructed Chemonics to use the district stability framework as a basis for district-level work plans, since this framework identifies key issues causing instability.

Management Oversight. According to USAID/OTI FPMs, management oversight of the project was inconsistent. FPMs indicated that issues raised to their supervisors were not acknowledged and remained unresolved, delaying implementation. For example, one FPM commented that she sent a work plan to her supervisor for approval and never received any feedback, while another FPM commented that she had attempted to elevate issues that were causing delays in her program but did not receive any assistance. After repeated attempts to get assistance, the FPMs stopped asking. After the start of the audit, USAID/OTI made management changes, and during follow-up visits the audit team determined that the FPMs were receiving more day-to-day guidance and assistance in resolving issues affecting activities in their areas.

Field Staff Responsibilities. During initial interviews, FPMs commented that they were not properly prepared for working in the field. Although FPMs received standard State Department training as well as a basic introduction to USAID processes before they arrived in Afghanistan, they received little training related to the program and plans for implementing the program. FPMs were also unsure of their roles and responsibilities for program implementation. For example, one FPM stated that it was not her job, but rather Chemonics', to do site visits. As a result, she was not aware of issues some of the subcontractors were having with implementation, which she could have helped resolve.

Chemonics Staff. After the attack on its Kandahar City compound, Chemonics had trouble recruiting and retaining qualified staff. For example, for the quarter ending December 2010, Chemonics reported 93 open positions. Furthermore, Chemonics was losing staff because of security threats directed at its staff. For example, in fall of 2010 Chemonics lost 11 engineers because of threats against the engineers and their family members. This loss greatly affected implementation of the infrastructure activities, which required significant input from engineers during the design and quality assurance phases.

Large-Scale Projects. The program was required to focus on stabilization or quick-impact activities. Furthermore, USAID/OTI expected initial projects to be small short-term grants in the range of \$35,000. However, the implementing partner awarded a significant number of grants for large-scale projects such as road construction, boundary wall construction, and school rehabilitation. These projects took longer than anticipated to design and approve. In retrospect, the implementing partner and USAID/OTI officials agreed that the grants portfolio should have been more balanced. Complicating matters was the insistence of the U.S. military that the program take on certain large infrastructure projects that were priorities for a PRT or a forward operating base. For example, in one district the military pressured an FPM to take on large-

scale road projects, one of which was valued at over \$1 million. Although the FPM originally agreed to the projects, USAID/OTI eventually rejected them. As of April 30, 2010, the program had completed 85 activities that cost more than \$50,000, with 1 costing \$1.8 million.

Grant Approvals. Grant approval took an average of 44 days, making it hard to meet USAID's expected period of 90 days for project completion. For grants over \$100,000, approval had to come from the USAID contracting officer in Washington, D.C., and this process sometimes took weeks. At one point, the Washington, D.C., contracting office closed for approximately 4 weeks for an office move, which contributed to delays in getting approvals on larger projects. According to USAID/OTI FPMs, poorly written grant proposals, which required extensive editing, also delayed approval.

USAID/OTI Staffing. According to USAID/OTI, staffing key field positions was difficult because it was hard to recruit employees willing to come to Afghanistan, let alone work in dangerous field environments. Staff turnover was high. For example, four USAID/OTI FPMs have been stationed in Marjah, Helmand Province, since the start of the program in summer 2009. Complicating matters even more, when people leave post, there are sometimes 4- to 6-week gaps when no one is stationed at Marjah even on a temporary basis. According to Chemonics, USAID/OTI staff turnover affected the implementation of the program because Chemonics staff had to reestablish working relationships each time someone new arrived. Furthermore, when no one from USAID/OTI was in the field, Chemonics was unable to secure project approvals. In addition, since the start of the program in June 2009, there have been four COTRs, which has affected the consistency of oversight.

Subcontract Bidding Process. Chemonics' bidding process for subcontractors contributed to delays in several ways. First, the implementing partner did not solicit bids for activities until it obtained final approval for an activity from Washington, D.C. This added 3 to 4 weeks to the implementation period while bids for subcontracts were solicited and evaluated, because work was not ready to proceed immediately after grant approval. Chemonics has recently changed its process to begin bid solicitation and technical evaluations of subcontractor proposals while activities are moving through the USAID/OTI approval process. Second, some subcontractors were submitting unreasonable bids, and Chemonics had to reissue solicitations until subcontractors submitted acceptable bids. For example, subcontractors bidding on one activity included in their bids the full replacement cost of their heavy construction equipment out of fear that insurgents would destroy it. In this case, just awarding the subcontract took approximately 2½ months.

Poor Quality Work Done by Subcontractors. Poor quality of subcontractor work also contributed to implementation delays. For example, work on rehabilitating a bazaar required extensive retrofitting because of the use of poor-quality materials. Two contract modifications were required, which extended the period of performance by 5 months, to March 31, 2011.

Coordination with Afghan Officials. Also complicating matters were some challenging relationships with Afghan Government officials, who tried to change the terms of the grant activities after approvals had been obtained and subcontractors were ready to start work. For example, one municipal mayor refused to accept delivery of information technology equipment he had already approved. This happened four times. Among other issues, he complained that the implementing partner was paying too much for software when cheaper pirated versions were available. His refusal delayed completion of this activity by 2½ months. In another instance, a school principal refused to allow a subcontractor to complete its work of rehabilitating a school, including new restroom facilities. The principal wanted Western-style

toilets instead of the traditional ones specified by the Ministry of Education. From November 2010 through April 2011, no work on the restroom facilities could be performed. Finally, this project was removed from the scope of work. For another activity involving rehabilitating canal protection walls, a mayor refused to sign the grant agreement for the project even though his subordinate had approved it. Ultimately, this activity was canceled.

Delays in implementing the projects made the program less effective in building trust between communities and the Afghan Government. Furthermore, according to USAID/OTI officials, the delays affected the implementing partners' ability to support other major U.S. Government initiatives. To address these concerns, this audit makes the following recommendations:

Recommendation 1. *We recommend that 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.*

Recommendation 2. *We recommend that USAID/Office of Transition Initiatives develop objective standards for evaluating Chemonics' performance, including standards for timeliness of program implementation.*

Recommendation 3. *We recommend that USAID/Office of Transition Initiatives develop formal communication protocols to facilitate interaction and communication between USAID/Office of Transition Initiatives managers and Chemonics.*

Recommendation 4. *We recommend that USAID/Office of Transition Initiatives prepare activity manager designation letters describing field program manager responsibilities.*

Recommendation 5. *We recommend that USAID/Office of Transition Initiatives provide training for its field program managers on their roles and responsibilities and program implementation practices and procedures.*

Recommendation 6. *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to adjust its program grants portfolio to include more small-scale activities.*

Recommendation 7. *We recommend that USAID/Office of Transition Initiatives formally delegate contracting officer's technical representative responsibilities for directing Chemonics to the USAID/Office of Transition Initiatives Regional Representative in Kandahar.*

Program Budget Was Not Properly Managed

Under Automated Directives System 202.3.7.1, "Financial Planning, Monitoring, and Budgeting for Results," it is mandatory for project teams to

prudently plan, monitor, and manage the financial aspects of their [program] throughout its life. This responsibility, in fact, can extend beyond the life of the program when issues remain unresolved.... The financial position of a program and its activities is critically important to achieving desired results.

However, the program did not properly manage its budget and began running out of funds to continue program implementation in the first quarter of FY 2011. ASI-SR had accepted more grants than it could fund, had unanticipated operating expenses, and was slow to close out completed projects with unspent grant funds that could have been released for other projects.

USAID/OTI FPMs consistently stated that they were told that money for the program was limitless and that they should accelerate project implementation through the grants component of the contract. One OTI FPM reported that this message was communicated to him as late as fall 2010. As a result, each FPM began accepting more grants for approval. Because of the perception that funding was unlimited, USAID/OTI never implemented district-level budgeting controls to track available funding. However, after the 2010 congressional elections, USAID operated under a continuing resolution that restricted spending to FY 2010 levels. Ultimately, the approved FY 2011 budget cut USAID funding for Afghanistan and OTI.

Unanticipated administrative expenses also contributed to the program’s budgetary problems. Among the most significant unanticipated administrative expenses were (1) the cost of renting armored vehicles, (2) costs of a resident personal security detail for Chemonics field directors, (3) rebuilding the Chemonics compound in Kandahar after its original compound was destroyed, and (4) ASI-SR support for other U.S. Government agencies at the Arghandab District PRT, without a cost reimbursement process in place. Table 3 summarizes these unanticipated expenses, discussed in the bullets below.

Table 3. Unanticipated Administrative Expenses (unaudited)

Category	Cost
Armored vehicle leases	\$5.3 million
Personal security details	\$1.2 million
Rebuilding Chemonics compound	\$2.3 million
Support for other agencies	\$12,200

- *Renting Armored Vehicles.* Chemonics had to lease armored vehicles because it took a long time to receive its purchased vehicles and clear them through customs. Chemonics leased 13 armored vehicles from its security contractor Pax Mondial for 21 months (July 2009 to April 2011) and 5 armored vehicles for 1 month (May 2011), for a total cost of \$5.3 million.
- *Using Personal Security Details.* Chemonics deployed personal security details for each of its field directors at the forward operating bases and PRTs where it was implementing ASI-SR. The total cost for personal security details was approximately \$1.2 million.
- *Rebuilding the Chemonics Compound.* Chemonics incurred unanticipated costs when a vehicle-borne improvised explosive device destroyed its compound in April 2010. During the rebuilding process, Chemonics had to rent an alternative venue in which staff could work and live. The cost of building a new compound and renting temporary facilities was approximately \$2.3 million.
- *Providing Support for Other U.S. Government Agencies.* ASI-SR provided life support and fuel totaling approximately \$12,200 for employees of other U.S. Government agencies, but it was not reimbursed for these expenses.

Finally, Chemonics was slow to close out completed projects. The result was that funds that

would otherwise have been available for other grants were not released for new grants. For example, between March and April 2011, after this audit began, Chemonics closed out projects releasing excess funds worth more than \$92,000, making those funds available for other projects. USAID/OTI anticipates that through additional project closeouts Chemonics can free between \$100,000 and \$150,000.

Because of these funding issues, ASI-SR could not implement projects under the grants component of the contract as fast as it needed to meet the needs of local Afghan Government officials. This could negatively affect the public's perception that the Afghan Government can provide services to its citizens. Furthermore, the unanticipated administrative costs reduced the amount available for grants by approximately \$8.8 million. Therefore, this audit makes the following recommendations.

Recommendation 8. *We recommend that USAID/Office of Transition Initiatives implement budgetary controls at the district level to manage existing and future grants.*

Recommendation 9. *We recommend that USAID/Office of Transition Initiatives recover as appropriate the \$12,200 spent for supporting other agencies under the ASI-SR program.*

Recommendation 10. *We recommend that USAID/Office of Transition Initiatives develop and implement benchmarks to assess Chemonics' progress in closing out completed grants.*

Recommendation 11. *We recommend that USAID/Office of Transition Initiatives issue written guidance to Chemonics describing time frames for project closeout.*

Projects Were Not Perceived as Afghan Government Efforts

According to the contract, consultations with community and government officials are critical throughout the identification, selection, tendering, implementation, monitoring, evaluation, and conclusion of community improvement projects. The consultation process should strengthen the relationship between the Afghan Government and its constituents at the local or district levels. Furthermore, according to USAID/OTI, to achieve ASI-SR goals, local communities need to believe that the Afghan Government is providing services to meet their needs.

According to an independent third-party monitoring and evaluation report on ASI-SR activities, for 9 of 15 projects reviewed, the Afghan public did not consider the Afghan Government or local line ministry to be involved in the project. Rather, most of the projects were credited to "foreigners" or PRTs. For example, in one southern district, ASI-SR, through the Afghan Government, provided a well at a local school. Although the project had a positive impact on the local and surrounding communities, credit was given to the PRT, not the Afghan Government.

The reason the public was not aware of the involvement of the Afghan Government and line ministries was, at least in part, a lack of branding and marking at project sites. ASI-SR has a branding waiver in effect that prevents branding with USAID logos for security reasons, but nothing prevents local governments from branding the projects with their logos or seals.

A key element in building trust between the Afghan Government and the Afghan people is a public perception that services are being provided by or at least in coordination with the government. Therefore, this audit makes the following recommendation.

Recommendation 12. *We recommend that USAID/Office of Transition Initiatives direct Chemonics to assist Afghan Government officials in developing a local branding plan.*

Mission Lacked a Transition Plan

According to the contract, the program was the initial step in a much longer-term effort to bring stability to violence-prone areas of Afghanistan until longer-term development programs can be implemented. USAID/OTI was to direct when the contractor should withdraw from areas that have stabilized, opening these areas to longer-term development projects. Furthermore, according to USAID/Afghanistan, it was to develop transition plans to move from stabilization activities to longer-term development activities.

USAID/OTI, USAID/Afghanistan, Chemonics, and Afghan Government officials all agree that even though some districts are ready for longer-term development, no comprehensive transition plans are in place. For example, in Kandahar Province, the mission has already developed a long-term project for bringing power to Kandahar City; however, for other districts in Kandahar Province such as Arghandab, where transition to the longer-term development phase is becoming feasible, no such plan exists. Furthermore, in Helmand Province, the draft transition plan developed by the British (who control stabilization and reconstruction in the province) focuses on areas other than the districts in which ASI-SR is working.

The lack of comprehensive transition plans resulted from a lack of dedicated resources within USAID/Afghanistan's Stabilization Unit. Technical staff were originally detailed from their mission offices to support the Stabilization Unit's transition planning, but they did not report to the Stabilization Unit Director. As a result, their respective office directors often directed them to perform other duties. Furthermore, recently the mission has been having trouble filling open positions designated for developing the transition plans.

Without a comprehensive transition plan in place 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 the community. The result could be that areas become more unstable after ASI-SR stops funding stability activities. Accordingly, it is important that USAID/Afghanistan identify the districts in which it intends to implement post-transition near-and longer-term development projects and that it develop transition plans for districts in which it plans to implement future projects and closeout plans for districts where it will not implement new projects. Therefore, this audit makes the following recommendation.

Recommendation 13. *We recommend that 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.*

Security Costs Were Unreasonable

Federal Acquisition Regulation (FAR) 31.201-2 states that costs are allowed if they are (among other things) reasonable and allocable. Section 31.201-3 states:

- (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.
- (b) What is reasonable depends upon a variety of considerations and circumstances, including:
- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
 - (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;
 - (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
 - (4) Any significant deviations from the contractor's established practices.

Unreasonable Costs for Personal Security Details. Chemonics paid \$1.2 million for personal security details for staff members who lived on military bases and traveled exclusively in military convoys. Chemonics assigned security personnel to protect its expatriate staff because it felt the military would not protect its staff in the event of an attack. It is questionable whether the cost of retaining resident bodyguards for one or two Chemonics expatriate staff members was reasonable according to FAR 31.201-3. Although this duty assignment is hazardous, neither USAID/OTI nor the audit team has seen any other USAID/OTI contractor incur this type of cost when the contractor's staff members are resident on a military installation. Further, no other USAID/OTI contractor has personal bodyguards traveling in military convoys, because the U.S. military assumes responsibility for civilians traveling in military convoys.

Unreasonable Costs for Leasing Armored Vehicles. The audit team considered Chemonics' vehicle leasing costs of \$5.3 million unreasonable because (1) vehicle lease costs charged by Chemonics' security contractor, Pax Mondial, were substantially higher than those available from other vendors surveyed, and (2) the number of vehicles leased appeared unreasonable given Chemonics' staffing levels, which were being drawn down beginning in early 2011. Chemonics, like other USAID implementing partners was forced to lease armored vehicles while awaiting delivery of the armored vehicles they had purchased. However, some aspects of the leasing arrangement appeared unusual. For example, the \$18,177 cost per vehicle per month paid by Chemonics is higher than what other U.S. Government organizations have paid to lease armored vehicles. Quotes obtained during the audit for leasing armored vehicles in Kandahar and Helmand ranged between \$13,000 and \$14,000.

Chemonics officials stated that the company had leased 13 vehicles from July 2009 to May 2011 because it felt the vehicles were needed to provide sufficient security. Whether Chemonics needed to rent 13 vehicles during that entire time is also questionable. Chemonics' security personnel prohibited expatriate staff from traveling into the field, and to maintain a low

profile, local staff were using unarmored vehicles. Therefore, this audit makes the following recommendation.

Recommendation 14. *We recommend that USAID/Office of Transition Initiatives determine the allowability of \$6.5 million in security costs and recover costs determined to be unallowable.*

Chemonics' Cash Controls Required Improvement

February 2011 guidance issued by USAID/Afghanistan to all implementing partners in Afghanistan recommends that they reduce their reliance on cash to pay program expenses. As a best practice, the guidance recommends paying taxes to the Ministry of Finance through electronic funds transfers. Furthermore, Chemonics policy is to use cash to pay for goods, services, and taxes only on an exception basis.

However, contrary to the best practices issued by USAID/Afghanistan and to its own internal policies, the implementing partner is using cash to make large tax payments to the Afghan Government, increasing the risk that a payment may be stolen. For example, on May 2, 2011, Chemonics reported that an employee sent to a bank in Lashkar Gah with \$62,398 to pay taxes to the Ministry of Finance disappeared with the money. Although all but \$80 was ultimately recovered, this incident revealed a serious weakness in Chemonics' internal cash controls.

According to Chemonics officials, the company has used cash to pay taxes since the inception of the program because there have historically been problems with getting the Central Bank of Afghanistan to validate tax deposits made via wire or bank transfer. 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 made. However, even though wire transfers may be problematic, Chemonics could have instituted other controls, such as making a payment with a local check or sending two individuals to make the cash payments. Chemonics officials stated that they are working on the wire transfer issue, but it will take 2 to 3 months to resolve the issue with the bank. Unless Chemonics implements compensating controls in the interim, cash will continue to be at risk for theft. Therefore, this audit makes the following recommendation.

Recommendation 15. *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to develop compensating controls for use in conjunction with cash payments.*

Reported Results Were Inaccurate

According to USAID/Afghanistan guidance, implementers were required to report actual results achieved in the first quarter of FY 2011. Chemonics was required to report actual results on five indicators during the first quarter of FY 2011. However, Chemonics' calculation for reporting results was inaccurate, since it used project targets instead of actual results for reporting—significantly overstating its accomplishments. For example, for the indicator *Number of Afghan personnel employed*, Chemonics reported the planned number that it intended to employ, even though projects were not completed and the actual number of Afghans employed had not been verified. The result was that the number was overstated by 3,670. Table 4 shows the impact of this inappropriate practice on reported results.

Table 4. Reported Versus Verified Results for First Quarter FY 2011

Indicator	Chemonics Reported	Audit-Verified Actual Results	Difference
Number of Afghan personnel employed	4,079	409	3,670
Number of local firms under subcontract	75	13	62
Value of local procurements (subcontracts, goods, services)	\$12,325,101	\$4,968,481	\$7,356,620
Number of schools refurbished	24	0	24
Number of health facilities rehabilitated	4	0	4

Chemonics used this method of calculation because USAID/OTI told it to report on projects being implemented during the quarter. Chemonics decided to focus on anticipated results for open projects rather than verified results of closed projects because it did not verify actual results until projects were closed, and it was taking too long to close projects. Had USAID/OTI verified the reported results, it would have detected the flawed methodology.

A vital part of performance management is monitoring and reviewing performance information in order to identify areas of underperformance and take timely corrective action. Chemonics' practice of providing project targets rather than actual results is misleading, since the results were overstated. As a result of this overstatement, there is no assurance that USAID/Afghanistan and USAID/OTI management are basing management decisions on accurate information. Therefore, this audit makes the following recommendations.

Recommendation 16. *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to report actual results in its progress reports.*

Recommendation 17. *We recommend that USAID/Office of Transition Initiatives develop procedures for validating reported results on a periodic basis.*

USAID/OTI Did Not Complete a Contractor Performance Review

FAR 42.1502 requires agencies to evaluate contractor performance and prepare a past-performance report for contracts that exceed the simplified acquisition threshold, which is currently \$150,000. Furthermore, USAID Acquisition Regulation 742.15 (also known as 48 CFR 742.1502) requires contracting officers to report on contractor performance at least annually.

USAID/OTI has not completed annual contractor performance evaluations of the implementing partners work under the ASI-SR contract as required. The mission should have completed at least one performance review by June 2010, 1 year after signing the contract. However, as of May 2011, the mission had only a draft of the required evaluation.

According to USAID/OTI, contractor performance reviews that were not finalized in its old contractor monitoring information system were lost during the changeover to the new system

currently in use. USAID/OTI commented that it intended to finalize the draft version of the contractor performance review soon. OIG previously noted the lack of contractor performance reviews in two prior audit reports.¹ Now that the transfer to the new system is complete, this new system should automatically initiate the review process on the contract anniversary date by sending e-mail notification to the contracting officer, the COTR, and the contractor.

Regular, comprehensive, and conscientious performance evaluations can provide the mission with information to make better acquisition decisions and can serve as a significant incentive to contractors to provide USAID with superior products and services. Further, the U.S. Government Accountability Office has ruled that failure to properly document contractor performance information and make the information available for use in source selections for the same or similar items is a sufficient basis to sustain a protest of a contract award in a subsequent source selection. Therefore, this audit makes the following recommendation.

Recommendation 18. *We recommend that USAID/Office of Transition Initiatives complete all required contractor performance reviews under the Afghanistan Stabilization Initiative for the Southern Region contract.*

¹ USAID Office of Inspector General, Audit Report No. 5-306-10-007-P, "Audit of USAID/Afghanistan's Human Resources and Logistical Support Program," March 31, 2010, and USAID Office of Inspector General, Audit Report No. F-306-11-003-P, "Audit of USAID/Afghanistan's Support to the Electoral Process (STEP) and Support for Increased Electoral Participation in Afghanistan (IEP) Programs," June 19, 2011.

EVALUATION OF MANAGEMENT COMMENTS

Based on our evaluation of the mission's and USAID/OTI's joint response to the draft report, management decisions have been reached on Recommendations 1, 2, 4, 5, 6, 7, 10, 11, 12, 15, 17, and 18. Furthermore, final action has been taken on Recommendations 3, 8 and 16. However, management decisions are pending on Recommendations 9, 13, and 14. The following paragraphs provide our evaluation of management's comments on each recommendation.

Recommendation 1. 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. We consider that USAID/OTI has reached a management decision on this recommendation.

Recommendation 2. 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). We consider that USAID/OTI has reached a management decision on this recommendation.

Recommendation 3. 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, a management decision has been reached and final action taken.

Recommendation 4. 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.

Recommendation 5. 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.

Recommendation 6. 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.

Recommendation 7. 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 and should be issued by November 30, 2011. This recommendation has a management decision.

Recommendation 8. USAID/OTI concurred with the recommendation to implement budgetary controls at the district level. USAID/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. We consider that USAID/OTI has reached a management decision and achieved final action on this recommendation.

Recommendation 9. 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.

Recommendation 10. 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.

Recommendation 11. USAID/OTI concurred with the recommendation that it issue written guidance to Chemonics describing timeframes for project closeout. 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. A management decision had been reached on this recommendation.

Recommendation 12. 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 by November 30, 2011. We consider that USAID/OTI has reached a management decision on this recommendation.

Recommendation 13. 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.

Recommendation 14. 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.

Recommendation 15. 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. We consider that USAID/OTI has reached a management on this recommendation.

Recommendation 16. USAID OTI concurred with this recommendation to direct Chemonics to report actual results in its progress reports. It has provided Chemonics with such direction, as well as other guidance. Consequently, USAID/OTI has reached a management decision and achieved final action on this recommendation.

Recommendation 17. 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.

Recommendation 18. 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 by November 30, 2011. USAID/OTI has reached a management decision on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Afghanistan Country Office conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis. The objective of this audit was to determine whether ASI-SR was achieving its main goal of building confidence between communities and the Afghan Government. The audit covered \$67 million in expenditures accrued by USAID/Afghanistan.

The audit was performed in Afghanistan from March 5 through May 18, 2011, and covered activities from the beginning of the program (June 26, 2009) through May 18, 2011. We conducted audit work at the Kabul offices of USAID/Afghanistan; Chemonics' Kandahar City office; and USAID/OTI and USAID/Afghanistan offices in Kandahar and Helmand Provinces. We visited 11 project sites in Arghandab District in Kandahar Province, analyzed program documentation, and interviewed program stakeholders.

The scope of audit was impaired in that security conditions and bad weather prevented us from visiting projects in Kandahar City in Kandahar Province, and Lashkar Gah City and Gamsir District in Helmand Province. Because the results at the 11 project sites we visited cannot be projected to the population of all 304 projects, we limited our conclusions to the items tested.

We assessed the significant internal controls used by USAID/OTI to monitor program activities, including the work statements and program descriptions in the ASI-SR contract, monitoring and evaluation reports, quarterly and weekly progress reports, and financial reports. We also reviewed USAID/Afghanistan's FY 2010 certification required under the Federal Managers' Financial Integrity Act of 1982² and prior audit reports to identify internal control and other issues that could be relevant to the current audit.

Methodology

To answer the audit objective, we interviewed USAID/OTI and USAID/Afghanistan officials, the contractor, and program beneficiaries. We also analyzed relevant documentation, including the contract, progress reports, and financial data.

To determine the reliability of computer-processed data received from the mission in support of its obligated and disbursed amounts, we reviewed prior audits of the mission's financial statements and internal controls. To determine the reliability of computer-processed data related to 304 completed, in-process, and cleared projects with an estimated value of \$23 million contained in USAID/OTI's grant-tracking database, we performed the following steps:

² As codified in 31 U.S.C. 1105, 1113, 3512.

- We selected a judgmental sample of 15 grants within the database and verified reported disbursements of \$868,120 against supporting documentation such as invoices. Since the testing was based on a judgmental, not a statistical, sample, the results and conclusions related to this analysis were limited to the items tested and could not be projected to the entire audit universe.
- To test grant receipt, start, end, and close dates, we performed several analytical procedures on all grants in the database to identify erroneous data.

Based on the audit procedures performed, we considered the computer-processed data used during the audit to be reliable.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Nathan S. Lokos, OIG/Afghanistan Director

From: S. Ken Yamashita, Mission Director /s/
Robert Jenkins, Director, Office of Transition Initiatives /s/

DATE: October 4, 2011

SUBJECT: Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative - South (Report Number F-306-11-XXX-P)

REFERENCE: Nathan Lokos memo dated August 20, 2011

Thank you for providing the Mission and USAID/OTI (Office of Transition Initiatives) with the opportunity to review the subject Draft Audit Report. Discussed below are the Mission and USAID/OTI comments on the findings and recommendations in the Draft Audit Report.

Summary Finding No. 1:

The Report states on page 4, *“USAID/OTI staff expected that activities implemented under grants would take 90 days or less to implement, although this expectation was not reflected in USAID’s contract with Chemonics. However, through April 30, 2010, it took ASI-SR [sic] an average of 160 days to complete projects...”* Based on the review findings as discussed in detail on pages 4 through 7 of the Report, OIG/Afghanistan issued seven recommendations (Recommendations 1 – 7) to correct the problems noted. The Report notes that final action has already been taken on several of these points, *“During the audit team’s fieldwork, USAID/OTI took action to address several of these recommendations, and final action has been taken on Recommendations 1,2,3 and 5.”*

USAID/OTI Comments: USAID/OTI acknowledges that implementation and completion of larger and more complex infrastructure projects often extended beyond a 90-day time frame. It should be noted that three months is an estimated target time frame for a typical USAID/OTI grant worldwide, often implemented in more permissive environments. Many USAID/OTI grants issued in Afghanistan vary greatly in sector, scope, and nature, and had widely diverse timelines, as conditions required. In addition, the goal of the Afghanistan Stabilization Initiative (ASI) is to create conditions that build confidence between communities and the Government of the Islamic Republic of Afghanistan (GIRoA).

On a general level, implementation timeframes are contracting as program strategy trends away from larger infrastructure-style activities and toward more community-based implementation of

‘softer’ grants such as vocational trainings and media development. More detailed responses to the individual recommendations are below.¹

Recommendation 1: *We recommend that 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.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) District Strategies for all active program districts (or sub-districts in the case of Kandahar City) have been written and approved by OTI. A sample district strategy for Garmser is shown in Attachment 1.
- 2) All USAID/OTI staff and all but the newest Chemonics staff have received District Stability Framework (DSF) training. Those Chemonics staff who have not yet had DSF training are scheduled to take it in the near future.
- 3) The DSF is in use in all active USAID/OTI programming districts and Kandahar City.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG’s concurrence to the management decision and closure of Recommendation 1.

Recommendation 2: *We recommend that USAID/Office of Transition Initiatives develop objective standards for evaluating Chemonics’ performance, including standards for timeliness of program implementation.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) Chemonics received general guidance to design grants that can be implemented in the three to five month range, as appropriate to meet stabilization goals. However, specific guidance on individual grants is given at grant review before approval. Timelines are included in the grant proposals and reviewed as part of the grant approval process. Any change in the timeframe for implementation necessitates a formal modification of the grant and a review of the new proposed timeline.
- 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.
- 3) At the end of grant implementation, Chemonics is required to write a Final Evaluation Report which is a key tool for evaluating Chemonics performance as pertains to grant implementation.

¹ Page 6 of the Report in the Grant Approvals comments states, “For grants over \$100,000, approval had to come from the USAID contracting officer in Washington, D.C., and this process sometimes took weeks. At one point, the Washington D.C., contracting office closed for approximately 4 weeks for an office move...” We recommend that the report be revised to clarify that grants over \$250,000 have to go to the contracting officer as compared to \$100,000, and to indicate that the contracting officer worked with OTI to improve the application of a more streamlined process. Also, the overall programmatic focus is now on smaller activities.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 2.

Recommendation 3: *We recommend that USAID/Office of Transition Initiatives develop formal communication protocols to facilitate interaction and communication between USAID/Office of Transition Initiatives managers and Chemonics.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) USAID/OTI instituted weekly, in-person leadership meetings between the USAID/OTI Regional Representative and Deputy Regional Representative and the Chemonics Chief of Party and Deputy Chief of Party where any systemic or specific problems are raised and addressed.
- 2) USAID/OTI and Chemonics now hold weekly (or bi-weekly in Districts with less grant volume) implementation meetings. The Chemonics Field Director leads the call. Chemonics leadership, procurement, and support staff are on these calls as are the USAID/OTI Field Program Manager and USAID/OTI Platform leadership. This facilitates weekly/bi-weekly progress reviews of all ongoing grants and a review of grants under consideration.
- 3) USAID/OTI staff has designated space at Chemonics Kandahar headquarters (at the Sherzai compound) where they, usually the Deputy Regional Representative, work directly with Chemonics staff, usually at least once a week.
- 4) USAID/OTI's Monitoring and Information Officer also visits Chemonics Kandahar headquarters regularly to work with Chemonics' Monitoring and Evaluation staff.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 3.

Recommendation 4: *We recommend that USAID/Office of Transition Initiatives prepare activity manager designation letters describing field program manager responsibilities.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken/Planned:

- 1) USAID/OTI has drafted designation letters to field program managers (FPMs). USAID/OTI and M/OAA are currently working on final approval before sending to the FPMs.
- 2) In addition to these letters, USAID/OTI circulated and discussed the detailed Scopes of Work for the FPMs during OTI's Strategic Review Session in April, 2011.
- 3) USAID/OTI will provide confirmation once the designation letters are approved and delivered to the FPMs.

Management Decision: USAID/OTI and the Mission deem that, with the implementation of the above, final actions will have been taken to fully address the recommendation. We, therefore, request OIG's concurrence to the management decision.

Target Completion Date: November 30, 2011

Recommendation 5: *We recommend that USAID/Office of Transition Initiatives provide training for its field program managers on roles and responsibilities, and program implementation practices and procedures.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) USAID/OTI staff provide pre-deployment training to incoming FPMs on USAID/OTI tools such as our database and office-wide communication protocols, strategies, and procedures as well as on the particulars of program staff's role, responsibilities, and the details of program-specific practices.
- 2) The annual management review of USAID/OTI operations in Afghanistan, completed in March of 2011, also highlighted the need for a clearer articulation of roles and responsibilities for all USAID/OTI staff members, including field program managers. In response, USAID/OTI completed a revision of all roles and during the semi-annual Strategic Implementation Management (SIM) sessions in April 2011 all field program managers received guidance and training in their roles and responsibilities.
- 3) When staff arrive in Afghanistan, they are first 'incubated' at the Regional Platform to learn about program operations from that hub, and often paired with an experienced mentor FPM before being given responsibility for a District on their own.
- 4) OTI also provides training to FPM staff at Strategic Review Sessions either at the Platform or Kabul. In addition to training, USAID/OTI policies, implementation strategies, procedures, etc. are discussed and reinforced.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 5.

Recommendation 6: *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to balance its program grants portfolio to include more small-scale activities.*

OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) The program is now only approving grants at the 100,000 dollar level and below.
- 2) The program is no longer considering activities that would require large subcontracts. USAID/OTI gave guidance to all field program managers, Chemonics field directors, and the Chemonics COP to regress from large infrastructure projects with complex

subcontracts that required advanced engineering, to manageable and less complex activities that can be easily maintained or sustained at the local level. Chemonics was instructed to focus on the process of community engagement and capacity building with regards to supporting links to and confidence in GIRoA, rather than the output of the activity or bi-lateral support from non GIRoA actors.

- 3) USAID/OTI has provided a first-of-its-kind training seminar for NGOs in Kandahar at Sherzai – Chemonics headquarters in Kandahar City – and is now able to award smaller scale grants to local NGOs.
- 4) In order to increase capacity to implement small scale activities, Chemonics brought on a small grants manager. Please refer to Attachment 2 for the Grants Manager SOW and approval.
- 5) Chemonics also created a grant mechanism that plainly defines the various types of implementations, and trends, to track the number of grants designed for community implementation, or direct implementation, for Grants Under Contract (GUC) or non-GUC, versus indirect implementation by non-grantees, and to reallocate our focus to the former. Attachment 3 shows the ASI Activity Implementation & Awards Mechanisms.
- 6) Chemonics is not renewing its subcontract with IRD to implement large Cash For Work projects.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG’s concurrence to the management decision and closure of Recommendation 6.

Recommendation 7: *We recommend that USAID/Office of Transition Initiatives formally delegate contracting officer’s technical representative responsibilities for directing Chemonics to the USAID/Office of Transition Initiatives Regional Representative in Kandahar.*

USAID/OTI Comments: While the USAID/OTI contracting officer’s technical representative (COTR) is based in Washington DC in order to work closely with the contracting officer, USAID/OTI concurs with the spirit of this recommendation and has delegated greater technical authority to the USAID/OTI Regional Representative.

Actions Taken/Planned:

- 1) A letter delegating authority to the USAID/OTI Regional Representative has been drafted. USAID/OTI and M/OAA are currently working on final approval before sending to the field.
- 2) USAID/OTI will provide confirmation once the letter has been delivered.

Management Decision: USAID/OTI and the Mission deem that appropriate actions are underway to fully address the recommendation. We, therefore, request OIG’s concurrence to the management decision.

Target Completion Date: November 30, 2011

Summary Finding No. 2:

The Report states on page 8, “...ASI-SR [sic] did not properly manage its budget and began running out of funds to continue program implementation in the first quarter of FY2011. ASI-SR had accepted more grants for approval than it could fund, and it had unanticipated operating expenses. Slow closeout of completed projects that had unspent grant funds resulted in funds that could have been released for other projects.” Based on the review findings as discussed in detail on pages 8 and 9, OIG/Afghanistan issued four recommendations (Recommendations 8 – 11) to correct the problems noted. The Report notes that final actions have been taken on recommendations 8 and 11, “During the audit team’s fieldwork, USAID/OTI took action to address recommendations 8 and 11.”

USAID/OTI Comments: USAID/OTI acknowledges that there was a period of several months (in the February to May timeframe) when future funding to continue the program beyond the grants already cleared was uncertain and that new grant clearances were put on hold and operational expenses were cut back as per instructions from USAID/Kabul due to a delay in the release of FY10 and FY11 funding. However, the program at no time had more grants cleared than it had money obligated to the contract’s Grant Contract Line Item. To be clear, USAID/OTI never approved more grants than it could fund.

Recommendation 8: *We recommend that USAID/Office of Transition Initiatives implement budgetary controls at the district level to manage existing and future grants.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) Since April 2011 quarterly expenditure parameters were established for each district and inputted into our Activity Database. Using the database, USAID/OTI tracks grant commitments and disbursements against the budget allocated for that district. This allows for USAID/OTI programmatic control over budgets per district. These targets are forecasted at average district burn rates and adjusted to ensure and manage sufficient and available funds for the continuation of the ASI task order. See Attachment 4: Program Funds control Sheet.
- 2) Each district evaluates its needs and expectations for implementation of activities per quarter. USAID/OTI and ASI reviews this assessment based on available resources and priorities determined with RC South platform guidance. Each concept is reviewed, revised, and submitted for approval based on the expenditure thresholds of USAID/OTI.
- 3) If there is a need for a cost modification, that request is made to USAID/OTI and then approved or disallowed through our authorization threshold mechanism. These recommendations are weighed against the flexibility of the budget, and USAID/OTI’s calculation of the remaining priorities that exist to complete the remainder of our task order.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG’s concurrence to the management decision and closure of Recommendation 8.

Recommendation 9: *We recommend that USAID/Office of Transition Initiatives recover as appropriate the \$12,200 spent for supporting other agencies under the ASI-SR program.*

Mission Comments: USAID/OTI and the Mission are reviewing this recommendation and will inform OIG/Afghanistan when management decision is made.

Target Management Decision Date: November 30, 2011

Recommendation 10: *We recommend that USAID/Office of Transition Initiatives develop and implement benchmarks to assess Chemonics' progress in closing out completed grants.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) USAID/OTI staff follow the evolution of grants through the activity cycle, from concept to implementation, to completed, to closed via our Activity Database. The database automatically triggers red flags if an activity is moved to completed and not closed within 21 days of the estimated activity completion date. An activity is only moved to "Closed" once all financial and reporting requirements are met. Every two weeks, grants that are open but completed are flagged for Chemonics to comment on. Between April and July, all grant concepts, and non-prioritized new activities, were put on hold temporarily to focus Chemonics staff on closing out all completed grants not yet closed out. A significant number of grants were moved to "closed" by July. At that time, new concepts were accepted for implementation.
- 2) Chemonics and USAID/OTI now conduct weekly and bi-weekly team meetings to confirm project implementation progress.
- 3) In addition, if a grant is nearing its projected end date, an official modification is required. This serves as a mechanism to ensure Chemonics is making progress toward the grant completion cycle.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 10.

Recommendation 11: *We recommend that USAID/Office of Transition Initiatives issue written guidance to Chemonics describing time frames for project closeout.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

USAID/OTI has issued guidance to Chemonics on activity close out procedures. Please see Attachment 5: Activity Closeout Procedures 2011-03-20.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 11.

Summary Finding No. 3:

The Report states on page 10, *“The reason the public was not aware of the involvement of the Afghan Government and line ministries was, at least in part, a lack of branding and marking at project sites.”* Based on the review findings as discussed in detail on pages 10, OIG/Afghanistan issued Recommendations 12 to correct the problem.

USAID/OTI Comments: USAID/OTI concurs with the recommendation to direct Chemonics to assist the Afghan Government officials in developing a local branding plan. Consistent with USAID/OTI’s strategy to develop district level work plans, each FPM will develop, in consultation with their Chemonics’ FD counterpart and GIRoA officials, a district branding strategy, rather than a blanket regional plan. We concur that it is important that the Afghan people perceive ASI activities as services provided by GIRoA line ministries and offices. ASI brands ASI activities through the use of signage, community councils, and events and radio announcements. In certain newly secured areas, however, overt branding may make GIRoA the target of insurgent attacks, which is counterproductive. USAID/OTI therefore acknowledges the need for a coordinated and enhanced branding strategy, but the strategy will be developed with Chemonics FDs and GIRoA officials at the district level.

Recommendation 12: *We recommend that USAID/Office of Transition Initiatives direct Chemonics to assist Afghan Government officials in developing a local branding plan.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken/Planned:

- 1) USAID/OTI Regional Representative will issue guidance to FPMs to work with Chemonics and GIRoA on district branding plans.
- 2) USAID/OTI will provide documentation to OIG once district branding strategies are complete.

Management Decision: USAID/OTI and the Mission deem that appropriate actions are underway to fully address the recommendation. We, therefore, request OIG’s concurrence to the management decision.

Target Completion Date: November 30, 2011

Summary Finding No. 4:

The Report states on page 10, *“USAID/OTI, USAID/Afghanistan, Chemonics, and Afghan Government officials all agree that even though some districts are ready for longer-term development, no comprehensive transition plans are in place.”* Based on the review findings as discussed in detail on pages 10 and 11, OIG/Afghanistan issued Recommendation 13 to correct the problem.

Recommendation 13: *We recommend that USAID/Afghanistan designate necessary staff to develop district transition plans in coordination with USAID/Office of Transition Initiatives as it prepares to leave districts in which it operates.*

Mission Comments: USAID/Afghanistan does not concur with this recommendation for the

reasons set forth below.

- 1) USAID/Afghanistan has not determined it is necessary to implement near-and longer-term development programs in each of the districts in which OTI projects have been implemented. Therefore, we cannot agree to assign Mission staff to work with OTI to develop post-OTI district-level transition plans for all districts in which OTI operates or operated.

Please note that in the first quarter of FY2012, USAID/Afghanistan will commence the development of a new country strategy for Afghanistan that will be informed by, among other things, strategies emanating from USG civilian-military regional platforms. The Mission's Stabilization Unit, of which OTI is a part, will participate in the development of the new country strategy and also has created a smaller Mission development transition team to inform the larger country-strategy-development process. The work of the smaller development transition team includes the identification of areas in Afghanistan where post-OTI near and longer-term development projects are needed.

- 2) USAID/OTI staff drafted district exit criteria and plan to finalize the criteria before the USAID/OTI SRS meeting in October. USAID/OTI platform leadership is coordinating disengagement and transition strategy with technical office representatives at the RC-S platform. (Attachment 6: Copy of Draft Exit criteria)
- 3) USAID/OTI leadership directed Field Program Managers to work with their Chemonics counterparts to complete disengagement assessments in Marjah, Garmser, and Arghandab. The assessment for Marjah is complete (Attachment 7). Notes on exit criteria were included in the new district strategy for Garmser (Attachment 1) and the FPM there is working on completing an assessment. An assessment of transition in Arghandab is also ongoing.

Management Decision: The Mission deems that current activities already fulfill the recommendation and requests closure of Recommendation 13.

Summary Finding No. 5:

On page 11, the Report states, "*Based upon FAR 31.201-3, it is questionable whether the cost of retaining resident bodyguards for one or two Chemonics expatriate staff was reasonable,*" and "*The audit team considered Chemonics' vehicle leasing costs of \$5.3 million unreasonable...*". Based on the review findings as discussed in detail on pages 11 and 12, OIG/Afghanistan issued Recommendation 14.

Recommendation 14: *We recommend that USAID/Office of Transition Initiatives determine the allowability of \$6.5 million in security costs and recover costs determined to be unallowable.*

USAID/OTI Comments: USAID/OTI concurs with the recommendation to review and determine the allowability of the questioned security costs in coordination with the Contracting Officer. A final decision will be made by the Contracting Officer.

Actions Taken/Planned:

USAID/OTI shared the OIG Report with the Contracting Officer (CO) and requested additional

documentation from Chemonics regarding the questioned security costs. The CO's final determination is expected to be made by December 1, 2011. The Mission's management decision will then be conveyed to OIG. A bill for collection will be issued to Chemonics for unallowable costs, if any.

Summary Finding No. 6:

The Report states on page 12, "...*Chemonics is using cash to make large tax payments to the Afghan government, increasing the risk that a payment may be stolen.*" Based on the review findings as discussed in detail on pages 12 and 13, OIG/Afghanistan issued Recommendation 15.

Recommendation 15: *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to develop compensating controls for use in conjunction with cash payments.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

On March 28, 2011, USAID/OTI directed Chemonics to develop and implement appropriate procedures to improve controls over cash payments. As a result, Chemonics has implemented the following measures:

- 1) All Chemonics tax payments are now made via bank transfer to the Da Afghanistan Bank. They have changed their tax remittances processes because the Helmand taxing authorities refuse to recognize the bank payments. They are now paying all tax payments through their Kabul office.
- 2) Chemonics notified their vendors in March 2011 that transacting business with the ASI South program requires that vendors be paid via bank transfer. Aside from rare exceptions made in the case of a proven inability to open a bank account and approved by the COP, all vendor transactions are now handled through bank transfer regardless of invoice amount.
- 3) Cash advances are limited to \$500 and designated for use by the Chemonics Operations Managers and Field Directors for small incidental purchases. The advance is charged to the employee's receivable account until the employee returns cash and cash equivalents (receipts/invoices) equal to the amount of the advance. Employees are expected to reconcile their advances upon their return to the office after completing the purchase(s). All advances must be cleared with finance before a subsequent advance will be given. In the event that an employee does not clear his/her advance within 45 days, the amount is deducted from the employee's pay.
- 4) All payroll transactions for Afghan employees are now paid through bank transfer further reducing the need for cash. All Afghan expense reports are reimbursed through bank deposit. This significantly reduces the need for cash in the Lashkar Gah office.
- 5) To further limit the number of times that the Lashkar Gah finance department requires cash replenishment, they have changed their method of managing imprest funds. Funds are topped up once a month only. As cash is utilized by the program (largely limited to expat in-country pay, check cashing, and \$500 advances described above), the costs are recorded into our accounting system and therefore reducing the amount of cash used. At the end of the month, the funds are topped up.
- 6) To top up funds, the Chemonics Senior Field Director designates two local nationals from the Finance Department to go to the bank and withdraw funds. The selected staff will

have undergone a thorough background check, and Chemonics will inform the staff that the project will report any missing funds to the police. The drivers are instructed that they are to wait for the two employees and make no diversions. Upon return to the office, the funds are counted, verified by the Operations Manager or Senior Field Director, recorded and stored in the safe. As an additional control, the Operations Manager or Senior Field Director performs random cash counts during the month.

- 7) For Kandahar and Kabul, Kabul Bank will deliver funds upon request to the Baron Hotel for a nominal fee. This eliminates the need for anyone to go to the bank and transport funds. Funds for Kandahar are transported to Kandahar by the COP, Finance Director or other expat manager.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 15.

Summary Finding No. 7:

Page 13 of the Report states, "*Chemonics was required to report actual results on five indicators during the first quarter of FY2011. However, Chemonics' methodology for calculating results was inaccurate, since it used project targets instead of actual results as a basis for reporting...*" Based on the review findings as discussed in detail on pages 12 and 13, OIG/Afghanistan issued Recommendation 16.

USAID/OTI Comments: USAID/OTI is unable to replicate or determine the method by which OIG found the figures in Table 4 and are therefore unable to verify or confirm this statement. It should be noted that though USAID/OTI provided results by indicator to the Mission for this period, there was a problem with uploading them to Afghan Info so no information has been reported into the Mission.

Recommendation 16: *We recommend that USAID/Office of Transition Initiatives instruct Chemonics to report actual results in its progress reports.*

USAID/OTI Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) USAID/OTI Regional Representative instructed Chemonics to put in real time actuals as soon as the project is moved to closed and verified by the Chemonics teams as part of the evaluation and closing process of an activity.
- 2) USAID/OTI Regional Representative instructed Chemonics that it must only use actuals for its quarterly results reporting to the USAID Mission.
- 3) USAID/OTI issued specific guidance for each indicator that we are required to report to the Mission.
- 4) The USAID/OTI Field Operations Manager works closely with the Information Officer to compile the Quarterly Report for Afghan Info.

Please see Attachments 8 through 10 for the instructions and guidance issued by USAID/OTI.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 16.

Recommendation 17: *We recommend that USAID/Office of Transition Initiatives develop procedures for validating reported results on a periodic basis.*

Actions Taken:

- 1) USAID/ OTI is verifying the actuals as part of a review process of each individual activity prior to activity close out. USAID/OTI implemented this process starting in March 2011 and will verify that Chemonics' quarterly reporting is accurate.
- 2) In addition, USAID/OTI works with Chemonics to implement a robust monitoring plan to track activity progress and verify completion. Chemonics hired two M&E staff to implement a program-wide M&E plan, part of which requires national staff to visit sites and complete outcome evaluation forms. This will improve accuracy in data collection.
- 3) USAID/OTI confirmed with the Mission that there is no inaccurate reporting of results and has added a new report function to the activity database to ensure accurate reporting into Afghan Info.

Please refer to Attachment 11 for guidance provided to IPs in April 2011 on reporting results to USAID/OTI.

Management Decision: USAID/OTI and the Mission deem that final actions are complete and fully address the recommendation. We, therefore, request OIG's concurrence to the management decision and closure of Recommendation 17.

Summary Finding No. 8:

The Report states on page 14, "*USAID/OTI has not completed annual contractor performance evaluations of Chemonics' work under the ASI-SR [sic] contract as required.*" Based on the review findings as discussed in detail on page 14, OIG/Afghanistan issued Recommendation 18.

Mission Comments: USAID/OTI did write the first year Contractor Performance Review (CPR) and submit to the Office of Acquisition and Assistance, who controlled the uploading of our CPRs to the NIH database. The CPR was not uploaded before USAID transitioned from using the NIH database to using the DOD database. During the transition, no CPRs could be uploaded. The transition is now complete and the first year contract Contractor Performance Assessment Report (CPAR) has been uploaded to the database.

Recommendation 18: *We recommend that USAID/Office of Transition Initiatives complete all required contractor performance reviews under the ASI-SR contract.*

Mission Comments: USAID/OTI concurs with this recommendation.

Actions Taken:

- 1) The first annual CPAR covering the period 6/25/2009 – 6/25/2010 for the contract has been uploaded to the database. (Attachment 12)
- 2) USAID/OTI is finalizing year two's CPAR (covering the period 6/26/2010 – 6/25/2011) which is expected to be completed by November 30, 2011.

Management Decision: USAID/OTI and the Mission deem that appropriate actions are underway to fully address the recommendation. We, therefore, request OIG's concurrence to the management decision.

Target Completion Date: November 30, 2011

Attachments:

- Attachment 1: Sample District Strategy from Garmser
- Attachment 2: Grants Manager SOW and approval
- Attachment 3: ASI Activity Implementation & Awards Mechanisms
- Attachment 4: Program Funds Control Sheet
- Attachment 5: Activity Closeout Procedures 2011-03-20
- Attachment 6 Copy of Draft Exit criteria
- Attachment 7 Copy of Marjah disengagement assessment
- Attachment 8 Output indicators and guidance
- Attachment 9 Email guidance to FPMs on 16 output indicators required
- Attachment 10 Email correspondence to IPs on output indicators
- Attachment 11: Email correspondence to IPs issuing on reporting results to USAID/OTI
- Attachment 12: Year 1 CPAR

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