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Auditor General

AUDIT REPORT
ON THE
IMPLEMENTATION OF THE AID PROGRAM
IN
AFGHANISTAN

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INTRODUCTION

A new program strategy was developed by USAID in its 1975 Development Assistance Plan. The more important features of this strategy are:

- Direct benefits to the poor
- Project simplicity
- Incremental project development
- Objective results that are unambiguously observable

An important characteristic of the new projects is the method used for financing rural construction. The USAID employs a modified Fixed Amount Reimbursement (FAR) procedure. The advantages of this procedure are: it ensures Government of Afghanistan (GOA) participation in at least 25% of project costs; no payment is made until projects are completed and operational and; no sophisticated cost accounting and contracting procedures are needed. FAR payments are simply based on a percentage of estimated costs. This financing procedure, in theory at least, provides the GOA with incentives to complete projects quickly and satisfactorily.

Four of the new projects (Helmand Drainage, Basic Health Services, Rural Primary Schools and Rural Works) incorporate all the features above. Our review accordingly focused on these projects to evaluate how well the new program is being implemented; how well the FAR system is working; and the progress on rural construction projects.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following section, are summarized below:

- The incentive feature of FAR should be improved by ensuring that the implementing agency derives more direct benefits from the system. (See pp. 4 & 5).
- The new projects require a large input of U.S. technical assistance and monitoring. But USAID is experiencing serious problems in filling these staffing requirements. (See pp. 5 -7).
- The performance of the construction contractor under Phase I of the Helmand Drainage Project is poor. USAID should develop an alternative plan to ensure construction is not seriously disrupted during Phase II. (See pp. 8 & 9).
- Temporary Basic Health Centers are not being established as agreed. Consequently, USAID does not have the benefit of observing whether the GOA is able to staff and operate the centers. (See p. 10).
- Some basic health centers may not be certified under FAR procedures because of sub-standard construction. (See p. 11).
- Some of the completed rural primary schools are already overcrowded. School planning surveys are needed to ensure this problem is minimized on new construction. (See p. 12).
- The selection criteria for rural works projects are too subjective. This can be corrected by using more quantified criteria. (See p. 13).

- Since the Afghan Family Guidance Association cannot sustain itself financially, USAID is confronted with the problem of continuing financial support indefinitely. (See pp. 14-15).
- There is a need for increased coordination among the divisions within USAID. (See pp. 16-17).

The report contains ten recommendations listed on Exhibit C.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

The new projects were slow in getting started and, in general, are still behind schedule. Yet progress is being made: schools, basic health centers and rural works projects are now being built and completed. The beneficiaries of these new facilities are the poor.

There are, however, some problems in the program. These problems are discussed below:

A. FIXED AMOUNT REIMBURSEMENT PROCEDURE (FAR)

Incentives

The FAR system does not provide adequate incentives to the implementing agencies.

FAR payments are made by USAID to the host country on satisfactory completion of approved projects. These payments are made in the form of checks which are sent to the ministries when the respective schools, basic health centers, etc. are completed and operational. This method of reimbursing costs is intended to provide incentives to the implementing agencies to perform efficiently and effectively.

The incentive element of the FAR procedure has been weaker than expected. The main reason is that most of the implementing agencies do not directly benefit from FAR payments. This results from the fact that the Ministries of Planning and Finance allocate budgets based on the agencies' overall operations, not their FAR activities. Thus, when USAID submits the reimbursement checks to the implementing agencies, they are required to deposit the money in Ministry of Finance controlled accounts. Any incentives for the implementing agencies are therefore of an indirect nature.

One exception is the Rural Works project. This is the only example where the financial incentive feature has been successful. The President of the GOA Rural Development Department, the project implementing agency, informed us that the procedure provides his agency with direct incentives. He said that the Ministry of Planning has agreed to make budget advances to his agency based on approved FAR projects. This,

according to the President, provides a strong incentive to his agency to perform well in order to receive budget advances.

Another problem is that the reimbursement percentages are less than expected. It was USAID's intent to finance about 70 to 75 percent of estimated direct costs of the new projects. This goal is not being achieved in at least two of the four projects. For example, under the Helmand Drainage project, the payment estimates were significantly below actual costs - - so much so that the implementing agency was reluctant to even request reimbursement. A similar situation is developing in the Basic Health Services project. Inaccurate cost estimates and unusually high contractor costs could reduce subsequent FAR reimbursements under this project to an estimated 59% of direct costs.

The incentive features of the FAR procedure have to be increased. One possible alternative is to link FAR payments to agency budgets. Another is to increase the percentage of AID contribution to the FAR projects. This problem, in any event, should be jointly reviewed by USAID and the GOA.

Recommendation No. 1

We recommend that USAID/A determine means of strengthening the FAR incentive feature.

Staffing

Staffing shortages are adversely affecting USAID projects.

Our prior audit report questioned whether USAID's engineering staff was large enough to handle the increasing workload under the new FAR projects. It was found that these new projects require more time-consuming technical assistance and on-site monitoring than the former USAID projects. Thus, at our suggestion in November 1975, the Mission reviewed its projected engineering needs in light of the new demands being put on its staff.

The USAID estimated that, in addition to the three engineers then on-board, it would need five to ten more by 1977. The Mission proposed that a contract be let with a US engineering firm to provide the needed engineers. That option was considered too expensive and was not implemented.

During 1976, the Mission tried unsuccessfully to get additional direct hire Americans on its staff. Part of the reason for this lack of success was that the Agency did not have engineers available for assignment to Afghanistan.

As of April 1977, there were still only four Mission engineers assigned. One of the four engineers had been mandatorily retired in January 1977, but was being retained an additional 120 days because of the critical staffing situation. Another engineer had been medically evacuated in March 1977, and had not returned as of our review. Finally, another engineer was scheduled to depart on extended TDY in mid-1977. The already shorthanded Capital Development/Engineering (CDE) division thus faces critical shortages beginning in the summer of this year.

In its March 1977 FAR evaluation, the USAID concluded that the engineering shortages threatened the entire program. In a priority cable to AID/W on April 4, 1977, the USAID reported:

The limited USAID engineering staff is not capable of responding to technical assistance needs of the GOA implementing agencies and monitoring requirements of USAID. Project implementation capability, already suffering, will fail within two to four months if the problem is not solved. Mission and AID/W management must act immediately to resolve this problem. (Emphasis added).

USAID officials stated that in addition to engineering, other technical divisions have experienced staffing problems. We believe, therefore, that the Mission should develop a planning procedure which would establish personnel availabilities prior to initiating new projects requiring additional technicians. This procedure should prevent programming efforts from getting too far in front of staffing availabilities.

Recommendation No. 2

We recommend that USAID/A seek AID/W confirmation that personnel are available before embarking on new projects that require additional American staffing.

Counterpart Training

USAID technicians need to work more closely with their GOA counterparts.

Current Mission FAR projects have large technical assistance components. Even where construction plays an important part in the projects, technical assistance and monitoring is necessary for project success. Project-funded American advisors are accordingly assigned to major projects.

Training and advising the counterparts requires day-to-day contact where the work is being performed. Thus, for maximum effectiveness, the advisors must work closely with their counterparts in the ministries. There are three categories of project-funded employees: AID direct hires, PASA employees and contractor employees.

The project-funded PASA and contractor employees maintain their offices in GOA facilities. But all project-funded direct hire American employees in Kabul maintained their offices at the USAID compound. With the exception of the Rural Works advisors, none of the project-funded direct hire American employees maintain offices at GOA facilities. We observed that the direct hire advisors spent considerable time at the Mission compound though the technicians informed us that much of their time is devoted to work in the GOA offices and on field trips.

The primary function of the project-funded US direct hire technicians is technical assistance. Accordingly, they should have their offices in the GOA facilities as the PASA and contractor technicians. This will allow them to work more closely with their counterparts and remove one obstacle to better relationships.

Recommendation No. 3

We recommend that USAID/A arrange for all project-funded advisors to have GOA office space near their counterparts.

B. HELMAND DRAINAGE PROJECT

The performance of the construction contractor under Phase I of the project is poor and may deteriorate further under Phase II.

Phase I of the Helmand Drainage Project Agreement was signed in May 1975. Its primary purpose was to demonstrate that drainage of irrigated land in the Helmand Valley can reduce salinization and waterlogging and thereby increase agricultural production substantially. Construction plans initially called for the completion of 120 kilometers of drains. These plans were subsequently revised downward to 97 kilometers, primarily due to problems encountered with the construction contractor. Phase II is now in the planning stage and represents a major effort to counter the problems of salinization and waterlogging. The plans include 1538 kilometers of drain construction which will directly benefit 2580 farm families.

Phase I of the Drainage Project has demonstrated that drainage can be effective in the control of waterlogging and salinization in the Helmand Valley. It has also shown where implementation problems can be expected under continuing phases of the project. The main problem is the capability of the construction contractor, the GOA Helmand Construction Company (HCC).

When the Drainage Project was initiated, HCC worked only in the Helmand Valley and was considered the most capable contractor to complete the heavier construction work such as main and sub-main drains. HCC was thus contracted by the implementing agency, the Helmand Arghandab Valley Authority (HAVA), to perform the construction. Shortly thereafter, HCC was reorganized into a national corporation and then took on large construction projects in other parts of Afghanistan.

Organized and equipped for only the valley area, HCC became overextended and was forced to spread its resources too thinly to complete projects satisfactorily. Construction efforts on their large projects has been poor. The Drainage

Project (Phase I), even though much smaller than HCC's other projects, is adversely affected as well. It takes weeks simply to move heavy equipment from one site to another because HCC lacks moving equipment. Lengthy work stoppages occur frequently. Poor work habits and techniques and a lack of comprehension as to what is needed on the project have contributed to delays and increased contractor costs.

Phase II represents a much expanded program, with 278 kilometers of main drains planned versus 50 kilometers under Phase I. Despite its poor performance record, HCC is the intended Phase II contractor because no other local contractors are qualified to do the heavy construction.

USAID is aware of the problem and attempting to build GOA guarantees into Phase II that would ensure better contractor performance. In the draft of the Phase II Project Agreement, two conditions have been set forth in regard to construction. The first requires that a written protocol be made between the GOA and construction contractor to clearly delineate responsibilities. The second requires GOA assurances that adequate equipment and supplies will be available for the Project. Nonetheless, it appears that HCC's performance under Phase II could become unsatisfactory as additional demands are made on it. We therefore believe that a plan is needed to give the USAID alternatives in the event that HCC does not perform satisfactorily.

Recommendation No. 4

We recommend that USAID/A develop alternative plans for Phase II of the Helmand Drainage project to ensure that main drain construction work will not be seriously disrupted.

C. BASIC HEALTH SERVICES

Temporary Centers

Temporary Basic Health Centers (BHC) have not been established to ensure smooth transition when construction of the new Health Centers is completed.

The purpose of the Basic Health Services project, signed on June 30, 1976, is to improve the health services in the country, primarily in the rural areas. The initial agreement provided \$1.12 million in first year funds to cover the construction of 12 Basic Health Centers and also the funding of two advisory contracts. Plans are to increase the number of new centers to 50 by late FY 1979.

According to Letter of Understanding No. 1, temporary centers were to be established at the sites where new centers were being constructed. These temporary centers were to provide medical services during the interim construction period. This arrangement was designed to give staff members the opportunity of acquiring additional experience and ensuring a smooth transition on completion of the BHCs. We found, however, that temporary centers had not yet been established.

We consider this an important element of the Basic Health project. The establishment of temporary centers should provide USAID with visible experience to determine whether the Ministry of Public Health (MOPH) can sustain the centers with adequate resources. It would be imprudent to continue financing the construction of new centers, if early in the project, it is found that the GOA is unable to staff the centers adequately. Without such experience there is always the possibility that some centers would not be utilized.

Recommendation No. 5

We recommend that USAID/A request the Ministry of Public Health (MOPH) to establish the required temporary BHCs.

Sub-Standard Construction

Sub-Standard construction at some Basic Health Centers may not permit USAID engineers to certify the centers for reimbursement under FAR procedures.

As part of the project agreement, USAID agreed to fund three partially completed centers. These centers were included in the agreement even though USAID engineers did not have the opportunity to approve the designs and specifications nor visit the construction sites before the agreement was signed.

Subsequent inspections of the centers by USAID engineers have found construction below acceptable standards. Although the Ministry of Public Health (MOPH) has been informed to take corrective action, USAID engineers have expressed concern that the centers may still not be certified for reimbursement under the FAR procedure.

Proper construction is a critical factor of the project. It ensures better utility and low maintenance costs of the facilities. There are, moreover, frequent earthquakes in Afghanistan. Tremors of a certain intensity could cause poorly constructed buildings to collapse causing serious injury. Should there be any evidence of faulty construction, the centers should not be certified.

Recommendation No. 6

We recommend that USAID/A jointly perform a special inspection of the three partially completed centers with the Ministry of Public Health (MOPH) and determine whether the centers can be certified, and if certification is not feasible, inform MOPH accordingly.

D. RURAL PRIMARY SCHOOLS

School planning surveys have not been an integral part of the site selection process in determining sizes and locations of schools.

The Rural Primary Schools (RPS) project was designed in 1975 to develop a primary education system which increases access of rural people to basic education. Phase I, as amended, provided for the construction of 115 schools, with an estimated completion date of December 1977. As of March 1977, 30 school complexes had been completed, and FAR payments made on 9. Payment on the remaining 21 was expected shortly. Additional Phase I construction has had to be delayed until September 1978 at which time Phase II is scheduled to begin.

The first 30 schools were constructed in Parwan province without the benefit of data on student population in the specific areas. Little, in fact, was known about the mix of students and future enrollment.

We visited several of the schools and found that some were already over-crowded. One school had as many as six classrooms set up outside in the open.

School planning surveys would help to avoid this situation by providing the data which would determine school size and location. Ministry of Education personnel do not now have the capability of performing school planning surveys but the U.S. advisor has the capability of training them.

Recommendation No. 7

We recommend that USAID/A integrate school planning surveys into the site selection process in Phase II of the Rural Primary Schools project.

E. RURAL WORKS

Selection criteria for Rural Works projects are too subjective and do not provide for concentration of the program.

The Rural Works project was initiated in June 1974, as a pilot project with five rural bridges and a land improvement scheme. These were successfully completed and prompted the initiation of a much larger program. The expanded project provides for the construction of 88 rural works projects such as bridges and water control structures, and 32 kilometers of rural roads. These will benefit the rural poor in agricultural production and marketing. As of our review, USAID was participating in 48 projects.

Until recently, no quantified criteria had been established to assist in the selection of projects in which USAID would participate. As cost data was accumulated, it became evident that some quantification was necessary. USAID accordingly established a maximum cost per beneficiary. This action was taken to ensure that the cost per beneficiary is reasonable. This quantified criteria, however, does not ensure that monitoring costs are reasonable and that the optimum number of poor are assisted. We feel, therefore, that the quantified criteria, as a minimum, should be expanded to include these aspects.

USAID has participated in projects all over the country with very little geographical concentration. Because of USAID's limited staff and the time and effort spent in trying to monitor projects in remote areas, we believe attempts should be made to concentrate USAID's participation. In a recent case, USAID officials had to travel 40 kilometers on horseback to reach the project site. The GOA Rural Development Department (RDD), which has field offices throughout the country, is better equipped to monitor projects in such remote areas.

Recommendation No. 8

We recommend that USAID/A more fully quantify its selection criteria for rural works projects and concentrate AID's participation in projects.

F. AFGHAN FAMILY GUIDANCE ASSOCIATION (AFGA)

Funding

USAID must either continue funding AFGA indefinitely or see it fail.

AFGA is a voluntary organization affiliated with International Planned Parenthood Federation (IPPF). Until 1975, AFGA had been almost exclusively funded by IPPF. Then, in 1975, the Clinic Expansion project was initiated. The purpose of the project was to provide funds for the AFGA expansion program which increases the number of family planning clinics from 19 to 35.

We noted in our prior audit report that the AID-financed expansion would greatly increase AFGA's operating expenses. Yet there were no assured sources of increased AFGA operating revenues. We recommended that assurances of future funding from GOA or elsewhere be obtained prior to USAID granting any second year funding to AFGA. USAID and AID/W replied that this was impractical at that time and requested the recommendation be closed pending further negotiations with GOA.

During our current review, USAID officials stated that they do not anticipate any additional GOA funding for AFGA in the near future. Increased funding from IPPF and other sources is also unlikely. Thus, the USAID now finds itself in the position of funding the increased operating expenses of AFGA for an indefinite period of time. This indefinite support of \$225-250,000 annually was not the intent of the project.

One of the major purposes of the project was to make AFGA self supporting. However, as this goal is not being achieved, we believe that the project should be evaluated to ascertain whether continued AID funding is warranted. This evaluation should be performed before USAID funds any of AFGA's future operating deficits.

Recommendation No. 9

We recommend that USAID/A reassess the AFGA project to assure itself that continued AID funding of AFGA operating deficits is justifiable in relation to project objectives.

G. COORDINATION OF FUNCTIONS

Increased coordination among Mission Divisions is needed.

USAID Divisions acted on projects sometimes without coordinating with other interested Divisions. At other times needed information was not disseminated because lines of communication were not used effectively. For example, on the Rural Primary Schools project, we found that Capital Development/Engineering (CDE) engineers were concerned about a potential project construction problem of which the USAID Education Division was unaware. The question is whether or not the Ministry of Education contractor can or will follow special procedures for pouring concrete in high temperatures in the southern provinces this summer. If the special procedures are not followed, construction may be substandard.

Since the USAID Education Division was unaware of the situation, the problem had not been discussed with the Ministry of Education. We notified the Education Division of CDE's concern, and corrective action is being taken with the Ministry of Education.

We also noted that the role of CDE varies from project to project. On the Basic Health Services project, CDE has full responsibility for monitoring and providing technical assistance on construction activities. On Rural Works, CDE works through the Rural Development Division which has overall project responsibility. On Rural Primary Schools, consideration was given to placing CDE in charge of all project construction activities, but CDE declined because of the shortage of staff.

The USAID intends to launch a "Project Implementation: Cost Effectiveness" study in the near future. It will involve analyzing the expenses of personnel and logistic and administrative

support activities in an effort to increase the efficiency of project implementation. That will be an opportune time for the Mission to address its problems with Division coordination and responsibilities.

Recommendation No. 10

We recommend that USAID/A analyze its Division functions and responsibilities to ensure clearer lines of authority and more effective coordination among the USAID/A Divisions.

BACKGROUND

U.S. assistance to Afghanistan started with a modest program in 1952. Over the years it has grown steadily. The current level of grant assistance obligations total \$19.8 million. The loan program, which was in excess of \$30 million, is almost fully disbursed and will be soon phased-out. Detailed financial data is presented in Exhibits A and B.

The current program is designed to assist the poor majority in conformance with the 1973 Congressional mandate. Projects were accordingly designed to build schools, health centers, bridges, roads, irrigation and water control systems, and drainage systems in the rural areas.

The Mission is currently reviewing its Development Assistance Plan and expects to submit a revised version by December 1977. Indications are that most of the current projects will continue into the future with additional phases.

SCOPE OF EXAMINATION

We have performed an audit covering the implementation of the AID program in Afghanistan for the period July 1, 1975 through March 31, 1977.

The purpose of this examination was to evaluate the implementation of the new program. We concentrated on those projects using the FAR procedures to determine how effective the new FAR financing system is functioning.

The examination was made in accordance with generally accepted auditing practices and included such tests of the records as were considered necessary.

The findings and recommendations contained in this report were reviewed with USAID officials and their comments were given due consideration prior to the issuance of this report.

USAID/AFGHANISTAN
ACTIVE PROJECTS OBLIGATIONS AND EXPENDITURES
FROM INCEPTION THROUGH MARCH 31, 1977
(IN \$ 000)

<u>P r o j e c t</u> <u>T i t l e</u>	<u>Number</u>	<u>Cumulative</u> <u>Amounts</u>		<u>Balance</u>
		<u>Obliga-</u> <u>tions</u>	<u>Expendi-</u> <u>tures</u>	
Population Family Planning	306-11-570-110	\$ 5,551	\$ 5,549	\$ 2
Higher Education - Kabul University	306-11-660-121	2,876	2,636	240
National Development Training	306-11-790-123	2,090	1,610	480
Rural Works	306-11-995-131	1,501	732	769
Project Development and Support	306-11-995-135	107	107	-
Regional Electrification, Kajakai Service Area	306-11-220-136	324	295	29
AFGA Clinic Expansion	306-11-570-139	567	322	245
Rural Primary Schools	306-12-640-142	2,277	346	1,931
AFC Management Support	306-11-199-143	1,250	367	883
Basic Health Services	306-11-590-144	1,433	485	948
HAVA Soil and Water Survey	306-11-120-145	173	167	6
Central Helmand Drainage	306-11-120-146	1,695	832	863
		<u>\$19,844</u>	<u>\$13,448</u>	<u>\$6,396</u>
Prior Audit Coverage			<u>\$ 5,357</u>	
Current Audit Coverage			<u>\$ 8,091</u>	

EXHIBIT B

USAID/AFGHANISTAN
SUMMARY OF ACTIVE DOLLAR LOANS
AS OF MARCH 31, 1977
(IN \$ 000)

<u>Loan No.</u>	<u>P u r p o s e</u>	<u>Cumulative Amounts</u>		
		<u>L o a n</u>	<u>Committed</u>	<u>Disbursed</u>
306-H-013	Kajakai Hydroelectric	12,000	11,998	11,486
306-H-013A	Kajakai Hydroelectric	3,000	2,381	1,792
306-W-018	Kajakai Hydroelectric	7,500	7,500	7,399
306-W-018A	Kajakai Hydroelectric	2,000	1,507	839
306-T-019	Agricultural Inputs	7,989	7,965	7,315
		<u>\$32,489</u>	<u>\$31,351</u>	<u>\$28,831</u>
Prior Audit Coverage				<u>\$14,138</u>
Current Audit Coverage				<u>\$14,693</u>

Source: AID/W Status of Disbursing Authorizations (Report No. W-743/1).

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<u>Recommendation No. 6</u>	
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• Director 5

AID/W

Auditor General, Area Auditor General/W (AG/AAG/W) 8

Auditor General, Office of Oversight Coordination,
Policies and Procedures (AG/OC/PP) 1

Auditor General, Office of Oversight Coordination,
Plans and Evaluations (AG/OC/PE) 1

Auditor General, Office of Operations Appraisal Staff
(AG/OAS) 1

Assistant Administrator/Near East 1

Office of Near East/North Africa Affairs (NE/NENA)
(Afghanistan Desk) 1

Executive Management Staff (NE/EMS) 1

Office of Development Planning (NE/DP) 1

Special Assistant for Program Management (AA/SER)
(Audit Liaison Officer) 1

Office of Development Program Review and Evaluation
(PPC/DPRE) 1

Office of Management Operations (SER/MO) 1

Office of Financial Management (SER/FM) 1

Office of Engineering (SER/ENGR) 1

OTHERS

Inspector General of Foreign Assistance (IGA)/W 1

Inspections and Investigations Staff (IIS)/USAID/Karachi 1