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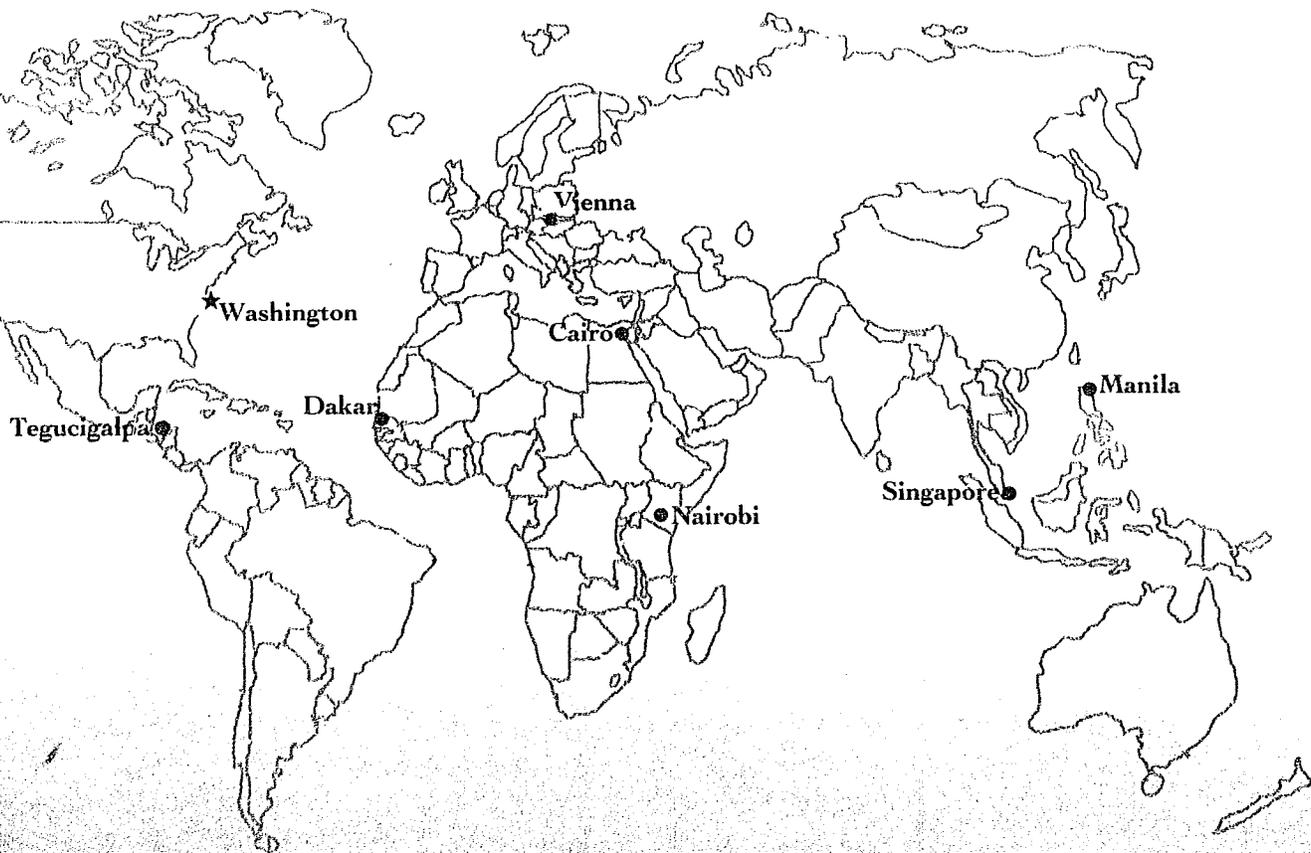
Regional Inspector General for Audit  
Singapore

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**AUDIT OF THE OFFICE OF THE  
A.I.D. REPRESENTATIVE FOR  
AFGHANISTAN AFFAIRS' CONTROLS OVER  
GRANTS AND COOPERATIVE AGREEMENTS**

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**Audit Report No. 5-306-93-09  
June 7, 1993**



BEST AVAILABLE



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**Regional Inspector General for Audit  
Singapore**

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*This bridge over the Kunar River was funded by one of the 43 A.I.D. grants and cooperative agreements and was expected to benefit 22,000 people.*



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

June 7, 1993

**MEMORANDUM**

TO: John S. Blackton, A.I.D. Representative

FROM: *James B. Durnil*  
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of the Office of the A.I.D. Representative for Afghanistan  
Affairs Controls Over Grants and Cooperative Agreements  
(Audit Report No. 5-306-93-09)

Enclosed are five copies of the subject audit report. We reviewed your comments to the draft when finalizing the report and have included them in total as Appendix II to this report. Your clear and concise comments greatly facilitated completing the final report.

Based on your comments, all recommendations are closed except for Recommendation Nos. 1.1, 1.2, and 1.3. Recommendation Nos. 1.2 and 1.3 are resolved and will be closed when planned actions are completed. Recommendation No. 1.1, however, is unresolved because the Office of the A.I.D. Representative for Afghanistan Affairs and the Office of Inspector General must agree on a firm plan of action to deobligate or reprogram the Afghan Program pipeline and agree on the amount. Recommendation 1.1 will be closed when the funds have actually been deobligated or reprogrammed as appropriate.

Please provide us information within 30 days indicating any actions planned or taken to implement the open recommendations. I sincerely appreciate the cooperation and courtesies extended to my staff during the audit.

Attachments: a/s

## EXECUTIVE SUMMARY

Congress established the Cross-Border Humanitarian Assistance Program to Afghanistan in 1985 to **provide humanitarian assistance to war-affected Afghanistan**. A.I.D.'s Office of the A.I.D. Representative for Afghanistan Affairs (O/AID/REP), located in Islamabad, Pakistan, administers the Assistance Program. The Assistance Program is separate and distinct from the U.S. Government's humanitarian assistance to refugees in Pakistan, which is the responsibility of the Department of State.

Since the inception of the Cross-Border Humanitarian Assistance Program (August 1985), A.I.D. has obligated and disbursed \$441 million and \$395 million, respectively. The disbursement include \$83.6 million for the PL 480 Title II Food Program, \$81.8 million for the Commodity Export Program, \$102.0 million for various A.I.D.-direct contracts, about \$127.3 million for grants and cooperative agreements. The overall objective of this assistance is to create conditions which would **allow Afghan refugees to return home in peace and dignity**.

The Assistance Program is implemented through U.S. contractors and Private Voluntary Organizations(Organizations)cooperating with Afghan organizations. The O/AID/REP had 43 active grants and cooperative agreements with Organizations from inception of the program through December 31, 1992. As of that date, the estimated costs, obligations, and expenditures of the 43 agreements totaled \$169.2 million, \$151.3 million, and \$127.3 million, respectively.

We audited the O/AID/REP's controls over grants and cooperative agreements in accordance with generally accepted government auditing standards. Our field work was conducted from August 17, 1992, through February 10, 1993, to determine whether the O/AID/REP followed A.I.D.'s policies, procedures and regulations. We found the following:

- About \$127.3 million in grant and cooperative agreement funds were disbursed to 22 Private Voluntary Organizations to carry out various agreements inside Afghanistan. The funds provided to

these organizations were spent for technical assistance, administrative support, and program costs. While direct outputs from these expenditures were achieved, it was not possible to determine whether the assistance provided achieved results commensurate with the funds spent, or to what extent it achieved the intended purposes because monitoring inside Afghanistan could not be effectively performed. We noted similar problems in other systems audits of segments of this program. Thus, we recommended that O/AID/REP and AA/Asia **assess the continued viability of Afghanistan Cross Border Program and make a determination on the most effective use of the unexpended \$46 million** (see pages 4 to 18).

- The O/AID/REP selected the proper type of assistance instrument and included audit requirements in these assistance instruments. Our audit, however, found that the O/AID/REP did not totally comply with A.I.D.'s procedures and regulations for documenting the reasonableness of the Organizations' proposed costs, negotiating the establishing benchmark, and documenting its review of the Organizations' eligibility and qualification (see pages 19 to 32).
- The O/AID/REP generally obligated, expended, and accounted for grant and cooperative funds in accordance with A.I.D.'s policies and procedures and applicable laws and regulations, although improvements were needed in selecting the appropriate financing method, and ensuring that advance requests were properly reviewed and supported (see pages 33 to 37).
- Performance reports from Organizations did not contain enough comparative information to determine if the Organizations were implementing the agreements in accordance with program descriptions and applicable provisions of the agreements (see pages 38 to 42).
- Although O/AID/REP closed out small grants and cooperative agreements amounting to less than \$500,000, it did not close out large grants and cooperative agreements valued at more than \$500,000 (see pages 43 to 45).

We noticed that similar management control problems were discussed in other "systems" audit reports of this Program. So we made a recommendation to reassess the continued viability of the entire Afghan Humanitarian Assistance Program, determine the necessity of the special authorities such as "Notwithstanding Provisions", and make a decision on

the most effective use of the unexpended \$46 million that was already in the pipeline. We also made eight recommendations to improve the management of grants and cooperative agreements.

AID/Washington and O/AID/REP officials agreed with our findings and responded to our recommendations in a cooperative and expeditious manner. They agreed that the Afghan Program's design and administration did not meet A.I.D. standards and did not support strategic objectives; they decided to closed out the existing Afghan Program as rapidly as possible and make a fundamental shift in the Program strategy.

Accordingly, O/AID/REP and AID/Washington officials developed a new strategy for the Afghan Program. To sustain this new strategy, they plan to **redesign the Afghanistan assistance portfolio, redefine the projects, and reprogram or deobligate the \$46 million pipeline** as appropriate. Additionally, O/AID/REP and AID/Washington officials agreed that **special authorities such as the "Notwithstanding" provisions, abbreviated project design, and relaxed monitoring requirements are no longer relevant to the changed circumstances.** Thus, AID/Washington is examining the special authorities to determine which, if any, should be retained. The O/AID/REP also developed a comprehensive checklist and supervisor review procedures to strengthen the management control weaknesses in the management of grants and cooperative agreements.

Except for the recommendations concerning program reassessment, all recommendations are closed on issuance of this report. The comments received from the O/AID/REP are summarized after each finding and included in their entirety as Appendix II.

*Office of the Inspector General*

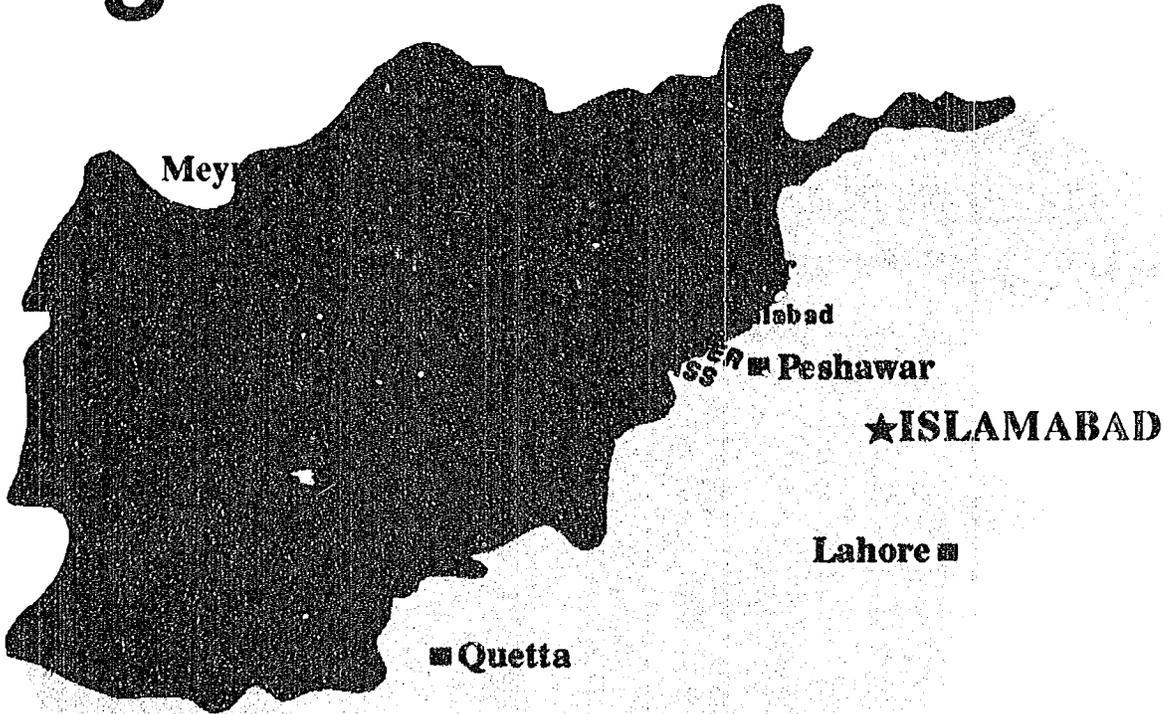
Office of the Inspector General  
June 7, 1993

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*Central &  
South Asia*



# ***Afghanistan***



# ***Pakistan***

Due to the unstable political climate in Afghanistan, the offices of the A.I.D. Representative for Afghanistan Affairs, and of U.S. contractors, are located in Pakistan.

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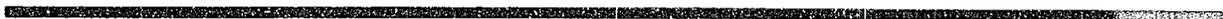
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**SCOPE AND METHODOLOGY** I

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# INTRODUCTION

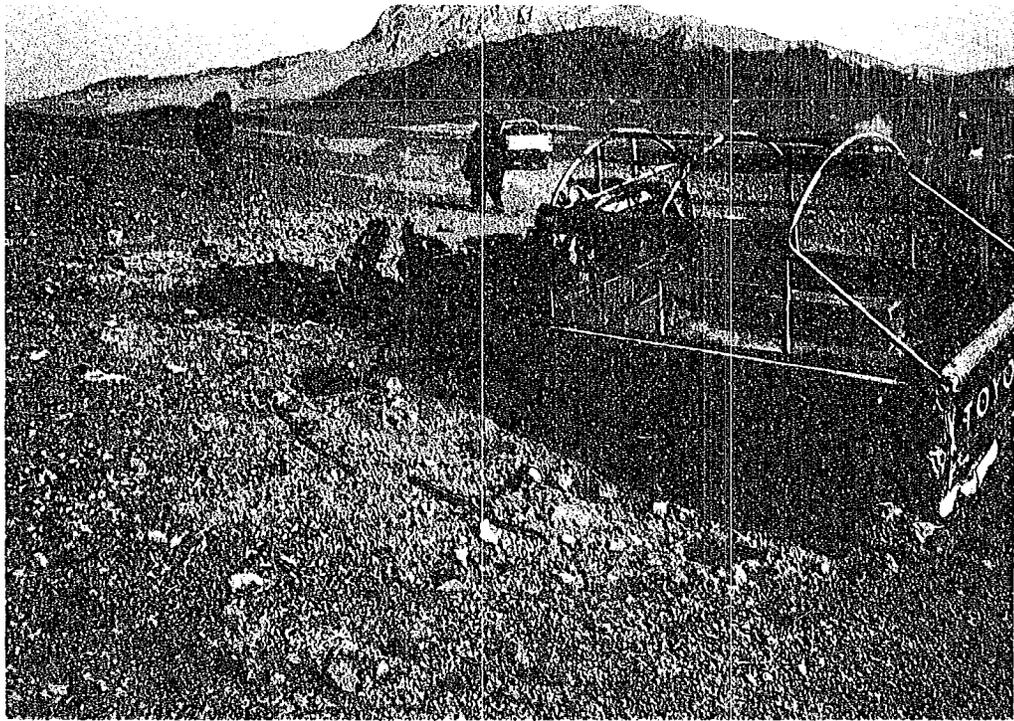
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## **Background**

The Cross-Border Humanitarian Assistance Program for Afghanistan was established by Congress in 1985 to provide humanitarian assistance to war-affected Afghanistan. A.I.D.'s Office of the A.I.D. Representative for Afghanistan Affairs (O/AID/REP), located in Islamabad, administers the program. The Assistance Program is separate and distinct from the Department of State's humanitarian assistance to Afghan refugees.

Much of the program is implemented through grants and cooperative agreements to Private Voluntary Organizations (Organizations) in cooperation with Afghan non-government organizations. A grant or cooperative agreement is defined as a gift in support of an agreed-upon purpose. As such, the grant or cooperative agreement is awarded to support a nongovernmental organization's program activities that are consistent with A.I.D.'s own objectives. Thus, A.I.D. is supporting a program designed and implemented by such organization. This program may be designed in response to an A.I.D. request for applications or it may be an unsolicited proposal which A.I.D. finds unique and worth supporting. A cooperative agreement differs from a grant in that the Organization seeks A.I.D.'s involvement in the performance of the Organization's program and has more management oversight by A.I.D. officers.

The O/AID/REP had 43 active grants and cooperative agreements with Organizations since program inception through December 31, 1992. As of that date, the estimated costs, obligations, and expenditures of the 43 agreements totaled \$169.2 million, \$151.3 million, and \$127.3 million, respectively. Operating this program is extremely difficult as evidenced by the photos on the following page.



*The danger of travel in Afghanistan is evident in the wreck of this vehicle, which was destroyed when it drove over a land mine in Kandahar Province in February 1992.*



*An O/AID/REP monitoring team had to bring its own fuel for the trip into Afghanistan, where fuel is difficult to find, expensive, and often contaminated.*

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## **Audit Objectives**

In accordance with the fiscal year 1993 audit plan, the Office of the Regional Inspector General for Audit/Singapore made an audit of the O/AID/REP's controls over grants and cooperative agreements to answer the following audit objectives:

- What happened to the money that the Office of the A.I.D. Representative for Afghanistan Affairs provided for grants and cooperative agreements and did it achieve the intended purposes?
  - Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s procedures and regulations for reviewing unsolicited proposals of nonprofit organizations and negotiating the subsequent award of the grant or cooperative agreement?
  - Did the Office of the A.I.D. Representative for Afghanistan Affairs obligate, expend, and account for funds, including advances, for grants and cooperative agreements in accordance with A.I.D.'s policies and procedures and applicable laws and regulations?
  - Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in establishing and implementing a monitoring, reporting, and evaluation system to ensure that nonprofit organizations implement the grants or cooperative agreements in accordance with program descriptions and applicable provisions of the agreements?
  - Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in the close-out, suspension, or termination of grants or cooperative agreements?
-

## REPORT OF AUDIT FINDINGS

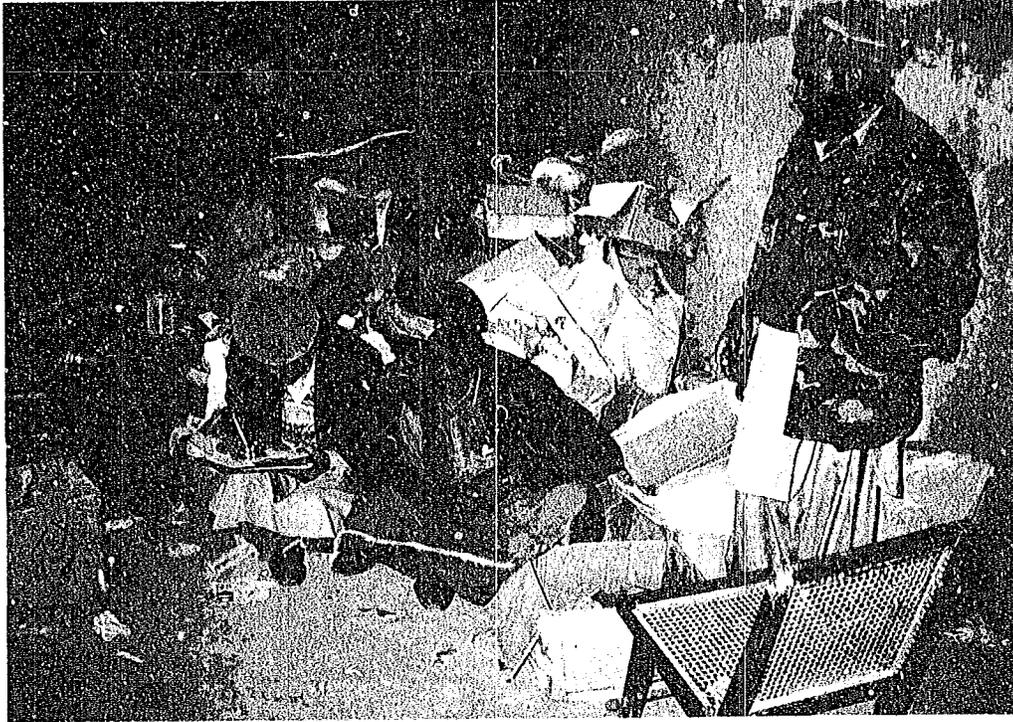
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**What happened to the money that the Office of the A.I.D. Representative for Afghanistan Affairs provided for grants and cooperative agreements and did it achieve its intended purposes?**

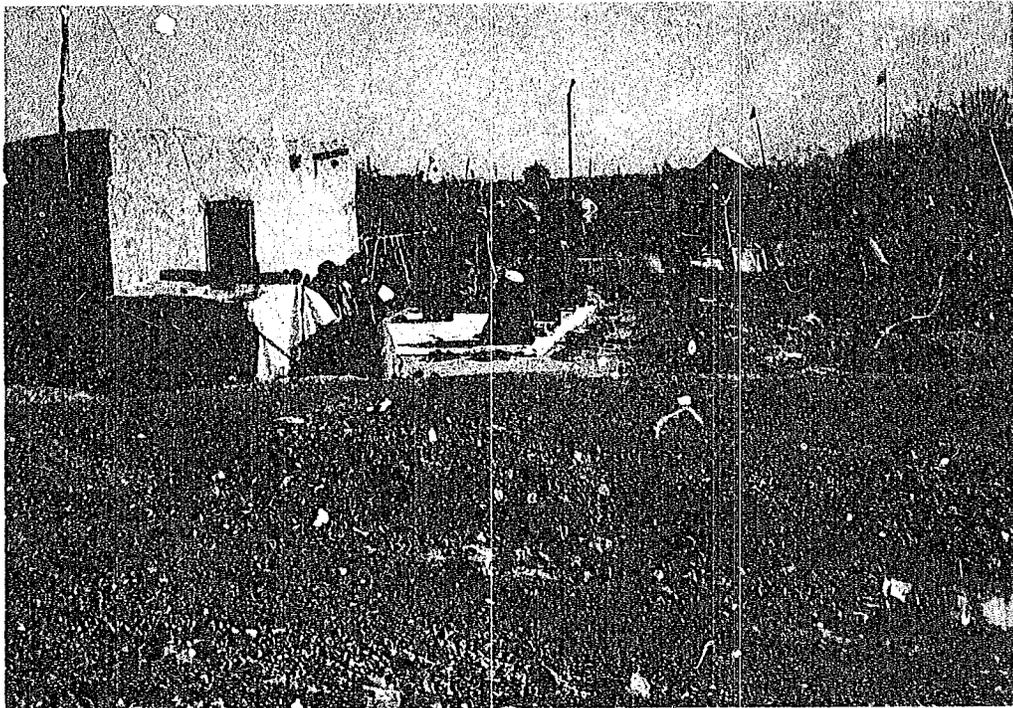
**About \$127.3 million in grant and cooperative agreement funds were disbursed to 22 Organizations to carry out various agreements under the Afghanistan program from its inception in 1985 through December 1992. The funds provided to these organizations were spent for technical assistance, administrative support, and program costs. However, it was not possible to determine whether the assistance provided was achieving results commensurate with the funds spent, or whether it achieved the intended purposes because monitoring inside Afghanistan was extremely difficult during the wartime conditions.**

Since the inception of the Cross-Border Humanitarian Assistance Program in 1985, A.I.D. has obligated and disbursed \$441 and \$395 million, respectively. The disbursements include \$83.6 million for the PL 480 Title II Food Program, \$81.8 million for the Commodity Export Program, \$102.0 million for various A.I.D.-direct contracts, and \$127.3 million for grants and cooperative agreements. The overall objective of this assistance was to create conditions which would allow Afghan refugees to return home in peace and dignity.

The O/AID/REP and Organizations' monitors traveled into Afghanistan to check on progress of A.I.D.-funded activities. The monitors took photographs of work done under the various activities, some of which are shown on the following pages.



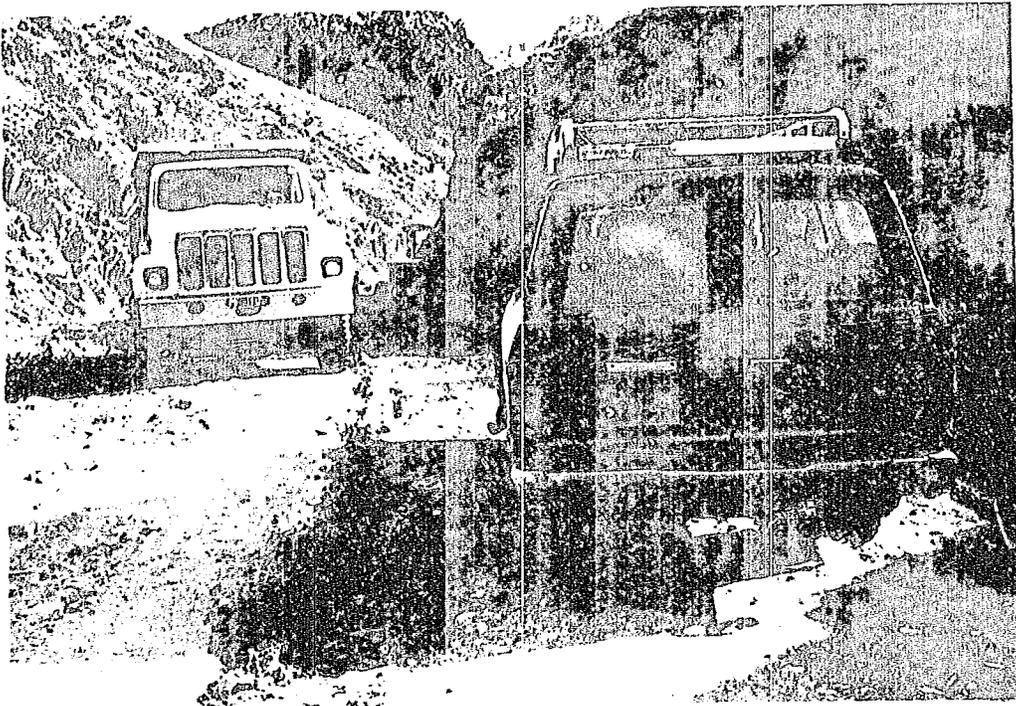
*A.I.D.-funded medical supplies were found stored on a dirty floor at this clinic in Ayub Khel, Afghanistan in January 1993.*



*A.I.D. funded this medical clinic in Bagh Pul, Afghanistan.*

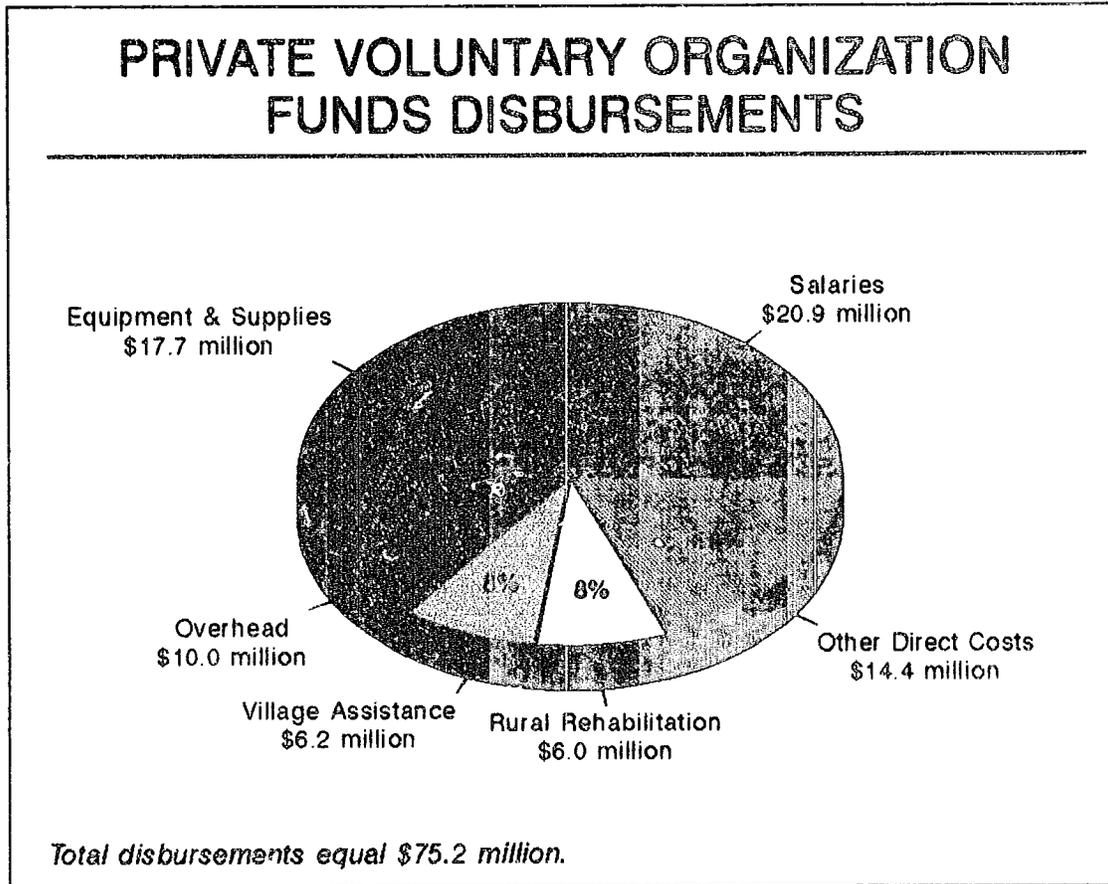


*A.I.D. funded the Parsa road widening project which was expected to benefit 120 families when completed. The road was destroyed during the war.*



*The work done on this road between Khost and Gardez was funded by A.I.D.*

We selected five organizations which accounted for about 59 percent (\$75.2 million) of the funds for detailed analysis. The following chart shows how these funds were disbursed.



Summarized information which would show direct outputs from these expenditures was not maintained. Our review of individual reports submitted by the Organizations, however, did indicate that tangible outputs were being obtained. While these outputs could not be confirmed by us, the implementing Organizations reported that direct outputs from expenditure of \$75.2 million were as follows:

- About 1,200 active health posts were set up and manned inside Afghanistan;
- About 150 Comprehensive and Basic Health Centers were staffed with either doctors, diploma nurses, or trained

medical technicians; one large regional hospital and 16 Primary Care Hospitals "were actively functioning" inside Afghanistan;

- More than 1,300 metric tons of medical supplies were procured, repackaged and shipped inside Afghanistan;
- About 1,500 small irrigation systems were cleaned and repaired; 23 roads (640 km) were rehabilitated or built; 103 km of foot paths were completed; and 22 bridges were repaired; and
- More than 1,400 metric tons of wheat seed and 16,600 metric tons of fertilizer have been distributed or sold.

While direct outputs were achieved, it was not possible to determine whether or not these outputs resulted in significant progress towards project purposes. Similar problems were noted in audits of the other segments of this program. Accordingly, as discussed below, the objectives, implementation, and monitoring of this entire program needs to be reassessed.

**The O/AID/REP and AA/Asia Should Assess the Continued Viability of the Afghanistan Cross-Border Program**

Contrary to current A.I.D. requirements, projects were designed without clearly defined objectives, verifiable indicators of progress, and standard project implementing and monitoring controls. This occurred because the O/AID/REP was authorized to use abbreviated approval procedures for project design, project implementation, and project monitoring which did not contain the normal controls, and because the "notwithstanding" provision in the authorizing legislation created an impression in the O/AID/REP that it could operate outside A.I.D.'s regulations and procedures. As a result, projects lacked performance indicators, and it was not possible to objectively determine the impact of A.I.D.'s \$127.3 million in grant assistance and if this was the most effective method of providing assistance. Since similar problems had also been noted in other parts of this program, all of A.I.D.'s financing and support of Afghanistan program must be assessed and a determination made about the continued viability of spending the remaining \$46 million.

**Recommendation No. 1: We recommend that the O/AID/REP, in coordination with AA/Asia:**

- 1.1 assess the continued viability of the Afghanistan cross-border program, as currently designed and implemented, and make a determination on the most effective use of the unexpended \$46 million (deobligate or reprogram);**
- 1.2 make a determination as to whether the use of the abbreviated project approval methods and waiver of end-use checks, as authorized under the authority of the "Notwithstanding" provisions, is still relevant under the current post-war conditions; and**
- 1.3 clearly define project objectives, establish performance indicators and use standard A.I.D. Handbook procedures for all future efforts.**

United States policy towards Afghanistan was defined in Section 1308 of the Omnibus Diplomatic Security and Antiterrorism Act of 1986, (PL 99-399), as follow:

*Congress finds that the Soviet Union invaded the sovereign territory of Afghanistan on December 27, 1979, and continues to occupy and attempt to subjugate that nation through the use of force, relying upon a puppet regime and an occupying army of an estimated 120,000 Soviet troops.... It is the sense of the Congress that the United States, **so long as Soviet military forces occupy Afghanistan, should support the efforts of the people of Afghanistan to regain the sovereignty and territorial integrity of their nation through ... the appropriate provisions of material support ....***

Specifically, U.S. policy sought: (1) the removal of Soviet troops from Afghanistan; (2) self-determination of the Afghan people; (3) restoration of the independent and non-aligned status of Afghanistan and; (4) the creation of conditions which would allow Afghan refugees to return home in peace and dignity. A.I.D.'s strategy focused on the fourth objective and provided humanitarian assistance to war-affected Afghans in liberated

areas -- primarily through the provision of food, health care services, medical supplies, training, and development of the agricultural infrastructure.

**Although the projects which were developed were consistent with United States policy objectives and A.I.D. strategy, they did not have the clearly defined objectives and verifiable indicators required by the Foreign Assistance Act and A.I.D. Handbooks. The Foreign Assistance Act requires the development of these indicators to measure progress towards objectives. Section 621(A) requires A.I.D. to establish a management system which includes:**

- The definition of objectives and programs for United States foreign assistance;
- The development of quantitative indicators of progress toward these objectives;
- The orderly consideration of alternative means for accomplishing such objectives; and
- The adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken.

Likewise, A.I.D. Handbook 3, Appendix 3K, paragraph B3 highlights the need for indicators. The Handbook states that progress indicators are required to measure progress of a project from the baseline conditions to the planned targets.

**Abbreviated Procedures.** The above requirements were not met because AID/Washington had authorized an abbreviated method for project design, implementation, and monitoring in 1985 due to the program's "sensitivity" and to permit rapid response and creativity in projects. AID/Washington delegated extraordinary authorities to the A.I.D. Representative for Afghanistan Affairs (AID/REP) based on the premise that the AID/REP should have maximum flexibility "... as free of AID/Washington concurrences or waivers as possible." AID/Washington stated that there was a need for rapid implementation. Since abbreviated methods for project implementation and monitoring were used, the O/AID/REP was able to deviate from normal A.I.D. project authorization and design process.

**Notwithstanding Provision.** The O/AID/REP was also authorized to provide assistance "notwithstanding any other provision of law." However, AID/Washington clarified the "notwithstanding proviso" by stating the following:

*The "notwithstanding" proviso in the new legislation which has also been present under the Section 451 authority ... affords the agency the extraordinary flexibility of avoiding any legal constraint. Such authority is available to the A.I.D. Representative only when any constraint ... proves seriously detrimental to assistance objectives. In any such instance, the Representative will have to justify, by a record in office files, the basis and justification for resort to this extraordinary authority....*

*This procedure will force the Representative and his field staff to be familiar with and work within the maximum operating limits now available to field Directors without resorting to this ultimate recourse, except when such recourse is absolutely necessary.*

Although the "notwithstanding provision" was used sparingly, there was a general impression within the O/AID/REP that the program was not subject to standard A.I.D. regulations and administrative procedures. An O/AID/REP official stated that the security concerns in Afghanistan and the urgent need to provide assistance to the Afghan people took precedence over administrative matters. For example, with the concurrence of AID/Washington, the O/AID/REP deviated from normal grant and contracting procedures, limited monitoring and end-use checks, limited auditing of Organization and contractor records, and exempted Organizations and contractors from commodity source, origin, nationality requirements.

**Objectives and Performance Indicators.** Actual implementation of the program was conducted by U.S. contractors and Organizations in cooperation with Afghan Non-Government Organizations. The organizations were not required to generate specific outputs from expenditure of funds. Instead, they set general objectives such as improvement in basic health or the rebuilding of agriculture infrastructure. Objectives were established in a very general way in order to allow the organizations flexibility in determining where and when to accomplish these objectives.

**Since projects were designed without clearly defined purposes or verifiable indicators of performance, progress towards achievement of project purposes could not be measured. For example, the Activity Approval Memorandum, or project plan, for the planned \$59.7 million Health Sector Support Project stated that the goal of the project was to improve the health status of the people of rural Afghanistan. The purposes were to:**

- **Improve** first aid and emergency services including medical and surgical care for war casualties --phasing down as the need subsided;
- **Expand** general primary and secondary health care services for civilians, including women and children as well as the Mujahideen [Afghan Freedom Fighters]; and
- **Enhance** the capability of the Alliance Health Committee -- or other organized Afghan entities or organized areas (private or public) -- to plan, organize and manage expanded health care activities.

**The objectives do not lend themselves to performance measurement because they are too broad, lack reliable baseline data, and lack a clear vision of the end result. For instance, it cannot be determined how many more millions of dollars of "improvement", "expansion", or "enhancement" was needed before the rural health care system reached an acceptable condition. Furthermore, since no reliable data on health conditions exist in Afghanistan, there were no performance indicators available which showed conditions at the start of the effort, what was achieved, or what was left to be achieved in order to declare the project a success.**

**The indicators that were used to demonstrate success were circumstantial. For instance, an O/AID/REP official stated that the number of Afghan refugees coming to Pakistan declined significantly after 1987 when the O/AID/REP began providing humanitarian assistance; therefore this demonstrated the success of the "cross border" program. This O/AID/REP official could be right, but another factor, the decrease in fighting since then, may have also caused the decline. Thus, A.I.D. needs to develop clearly defined objectives, provide reliable baseline data, and identify indicators of performance which are unique to these objectives in order to measure performance.**

**Accountability for U.S. Government Funds.** The O/AID/REP officials could not physically monitor inputs because a substantial portion of the assistance was provided inside of Afghanistan, and U.S. citizens were prohibited from traveling there. Additionally, normal audit provisions were not included in grants, and source origin requirements were waived.

The O/AID/REP acknowledged this fact in the November 26, 1991 Internal Control Assessment stating that a major material weakness of the O/AID/REP's Afghanistan cross border program is the inability to maintain an effective system of monitoring, evaluating and accounting over uses of U.S. government funds because of U.S. policy which prohibits entry into Afghanistan by American direct-hire employees or by U.S. nationals financed by the U.S. Government. However, in its October 1992 Management Control Assessment, the O/AID/REP stated that several steps had been taken to increase management control. These steps included the Secretary of State lifting the prohibition on U.S. direct hire visits inside Afghanistan to a limited extent.

Consequently, **the risk of A.I.D.'s assistance not reaching its intended recipients is extremely high** as the projects are implemented in a chaotic and lawless environment where a substantial portion of the assistance is provided in cash payments and marketable commodities. Projects are administered through several layers of intermediaries (contractors, private voluntary organizations, and Afghan Non-Government Organizations), which increases chances that assistance will "leak out" through this long pipeline.

Indeed, the O/AID/REP's records indicate that losses of commodities and funds have reached a high level. Congress stated that the conditions for assistance to the Afghan people were as follows:

*The President and Secretary of State are directed to adopt policies and programs to ensure that all assistance intended for the Afghan people reaches its intended Recipients and that theft or diversion of such assistance not be tolerated.*

**But theft and diversion have been considered a cost of doing business.** For instance, an O/AID/REP official stated that he believes only about 75 to 80 percent of the assistance is reaching intended recipients. This estimate means that about \$36 to \$45 million of expenditures, out of \$179 million for commodity and program costs for use in Afghanistan, may not have reached intended recipients. The losses are due mainly to

theft and diversion. Although the losses have been appropriately reported, officials within A.I.D. stated that there was nothing that could be done, other than cutting off assistance in the regions where the thefts occurred, because of the restriction on U.S. personnel traveling to Afghanistan.

According to the O/AID/REP records, there have been at least 85 reported cases of theft, embezzlement, and seizure. In just one three month period (August through October 1992), five cases of theft and robbery occurred resulting in a loss of A.I.D. cash and commodities valued at \$354,588. These were as follows:

- In August 1992, robbers seized A.I.D.-funded wheat seed valued at \$130,588. The wheat was destined for seed multiplication activities in wheat-producing provinces. It was later reported that the full quantity was sold by the robbers in the local market.
- On August 31, 1992, an A.I.D. grantee notified the O/AID/REP that funds totaling \$40,000 had been stolen by one of its Afghan subgrantees.
- In October 1992, bandits seized 470 metric tons of A.I.D.-funded wheat valued at approximately \$120,000. The shipment was destined for emergency feeding programs for Kabul evacuees.
- On October 9, 1992, a shipment of A.I.D.-funded medicines and medical supplies was confiscated from an Organization. The shipment weighed 11,000 kg and was valued at approximately \$40,000. At the time, organization personnel were carrying an A.I.D.-funded cash payroll, fortunately, the payroll was not discovered by the robbers.
- The next day, October 10, 1992, another shipment of A.I.D.-funded medicines and medical supplies was confiscated from the same Organization. This loss amounted to 6,000 kg of medicines valued at approximately \$24,000. Once again, the hidden cash payroll was not discovered by the robbers.

**As can be seen, it is difficult if not impossible to eliminate the theft and diversion with the way this program is currently operating. With Soviet troop withdrawal in February 1989 and the removal of the Soviet-backed government in April 1992, there is now no need for**

"sensitivity" and rapid response or the "notwithstanding" clause. In light of this, as well as the high vulnerability of the program, **the entire operation should be reassessed to determine if USAID's involvement should be continued and under what conditions.** In fact, the O/AID/REP stated, in the Country Development Strategy Statement dated May 1991, that there are no articulated U.S. developmental policy objectives to guide future A.I.D. activities in Afghanistan once a political settlement was reached, peace achieved, and U.S. - Afghan relations normalized.

The difficulty in establishing accountability over funds and commodities was recognized as a major problem of this program. In April 1985, the Director of A.I.D.'s Office of Foreign Disaster Assistance stated that:

*On-site verification of all food purchases or final disbursements by independent auditors will probably not be possible under normally accepted audit procedures. Therefore, a sample verification, in accordance with generally accepted auditing standards, of the grantee's management reports or other source documents showing commodity purchases shall be deemed adequate verification of disbursement of grant funds.*

The difficulty of accountability continued in this program and, in its May 1991 Strategy Document, the O/AID/REP stated:

***There are inherent difficulties in ensuring a full and complete accounting of A.I.D. resources in the operation of a cross border program. Physical presence of A.I.D. staff and/or contractors inside Afghanistan by itself will not make these difficulties disappear. While A.I.D. has met standards and has a reasonable record, increased presence inside will improve A.I.D.'s current ability to independently monitor and track assistance. Unsettled conditions in Afghanistan will undoubtedly hamper establishment of sound controls and oversight. Nevertheless, the O/AID/REP considers this the key issue to the continuation of the program.***

Because of these difficulties and with the concurrence of AID/Washington, the O/AID/REP modified audit and end-use clauses in its grant and cooperative agreements by putting the following amended audit statement in its agreements:

*The provisions of this Agreement with respect to accounting, records and audit as specified in Standard Provision No. 2 shall not apply to operational costs incurred by the Recipient organizations within Afghanistan and end-use checks of commodities and equipment located within Afghanistan. However, the Organization agrees to the maximum reasonable extent to exercise prudent oversight of such operational costs and commodities.*

**Reassessment.** Since the commencement of our audit (August 1992), the O/AID/REP and USAID/Pakistan have made some extraordinary changes in how the program is organized. In January 1993, USAID/Pakistan and the O/AID/REP merged. The support personnel, contracting and commodities office, financial management, and executive office were absorbed by the corresponding functions in USAID/Pakistan. O/AID/REP project and program officers were organized into a separate, identifiable division of USAID/Pakistan under the direction of the USAID/Pakistan Mission Director.

Through December 1992, more than \$441 million has been obligated and \$395 million expended (\$46 million unexpended) under the Country program. Other audits (See Audit Report No. 5-306-90-09, Commodity Export Program for Afghanistan, and Audit Report No. 5-306-93-10, Controls over Training for the Afghanistan Cross-Border) indicate similar problems throughout the program. Therefore, the O/AID/REP should reassess objectives, implementation, and monitoring of the entire program and determine if the program is still relevant. If the program is determined to be unnecessary, the O/AID/REP should deobligate the unexpended \$46 million and put the funds to better use. But if the program is determined to be necessary, the O/AID/REP should clearly define the project objectives and identify performance indicators. Also the O/AID/REP should determine if the program should be implemented and monitored under new "ground rules" by addressing the use of the "notwithstanding" proviso, the deviations from normal A.I.D. grant and cooperative agreement procedures, the general waiver of commodity source origin requirements, the limiting of Organization audits, and the lack of end-use verification.

The new AID/REP (USAID/Pakistan Mission Director) and the O/AID/REP program personnel generally agreed with our findings and recommendations. The AID/REP stated that he had been in charge of the Afghan program for less than one month and had similar concerns about

it. He added that ground rules for this program must be established and that is why he called in a management assessment team to review the program. He stated that he is still working on the team's scope of work and may have them look at some issues raised in our report.

In summary, the O/AID/REP did not establish clear objectives that could be measured and could not use effective implementing and monitoring controls; thus, we could not objectively determine the overall impact of A.I.D.'s assistance of \$127.3 million provided for grants and cooperative agreements. O/AID/REP's methods of establishing objectives, implementing the plan, and monitoring for results on the entire program no longer appear relevant to present conditions. This situation typifies conditions found throughout the program.

### **Management Comments and Our Evaluation**

O/AID/REP concurred with the finding and recommendations. Officials did, however, state that they have subsequently recovered \$268,138 of the \$354,588 in stolen goods referred to above.

O/AID/REP has reassessed the program and developed a new strategy for the Afghanistan Program; and AA/Asia has approved the new strategy document and program direction. The O/AID/REP's strategy for Afghanistan now focuses on reducing infant and child mortality, increasing primary education enrollment, and reforestation. Existing activities in health, education, and agriculture are to be refocused toward these new objectives. Activities not directly supportive of the new objectives are to be terminated, and the \$46 million pipeline for these activities will be reprogrammed or deobligated as appropriate.

In its approval cable for the new strategy, AA/Asia "encouraged" the O/AID/REP to work through the Bureau in lining up analytical resources to help redesign the Afghanistan portfolio. AA/Asia also "welcomed" a proposal from the O/AID/REP for joint scoping, planning, and definition of projects during the summer of 1993. The AA/Asia is also withdrawing all special authorities from the AID/REP and will decide, over the next six to twelve months, which authorities are still needed.

Based on the O/AID/REP response, Recommendation Nos. 1.2 and 1.3 are resolved. Recommendation No. 1.2 will be closed when AA/Asia has decided which, if any, special authorities are needed. Recommendation No. 1.3 will be closed when O/AID/REP and Asia Bureau have redesigned the Afghanistan portfolio and redefined the projects. Recommendation

No. 1.1 is unresolved; it will be resolved when O/AID/REP and the Inspector General have agreed on a firm plan of action and on the amount to be deobligated or reprogrammed. It will be closed when the funds have been deobligated or reprogrammed as appropriate.

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**Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s procedures and regulations for reviewing unsolicited proposals of nonprofit organizations and negotiating the subsequent award of the grant or cooperative agreement?**

The O/AID/REP followed some of A.I.D.'s procedures and regulations for reviewing unsolicited proposals and negotiating the subsequent award of grants or cooperative agreements.

We found that the O/AID/REP selected the proper type of assistance instrument and included limited audit requirements in assistance instruments. All agreements were properly classified as a grant or cooperative agreement; none should have been a contract. In addition, each agreement contained an audit clause that is part of a standard package of clauses negotiated into all grants or cooperative agreements by the O/AID/REP. However, the clauses, written and approved in AID/Washington, explained that accounting for funds or checking end-use of commodities inside Afghanistan would be reduced to "best effort."

Our audit also found that the O/AID/REP did not totally comply with A.I.D.'s procedures and regulations. The O/AID/REP needs to:

- Document the **reasonableness of the Organizations' proposed costs**;
- Negotiate and establish **benchmarks (i.e., quantifiable indicators)**; and
- Better document its reviews of the Organizations' **eligibility and qualifications** to perform the proposed work.

The problems are discussed below.

## **Reasonableness and Allowability of Proposed Costs Were Not Documented**

For all four agreements reviewed, there was no evidence that the O/AID/REP reviewed cost elements of the Organizations' proposed costs for reasonableness and allowability as required. The O/AID/REP officials could not explain why established procedures had not been followed. But they did say that when the grants were awarded, the grant officer was under great pressure to respond quickly and that, in the early stages of the program, documenting decisions was not a major concern due to the urgency of the program. As a result of not documenting its review of all cost elements, A.I.D. cannot be assured that \$90.4 million in estimated costs approved for the four agreements that we reviewed were reasonable and allowable.

**Recommendation No. 2: We recommend that the O/AID/REP follow A.I.D. Handbook 13 requirements and to review each cost element of an Organization's proposal for reasonableness and allowability, and then document that review in the agreement file.**

Handbook 13, Chapter 4 states that before entering into a specific agreement, **each cost element of the program must be reviewed for reasonableness and allowability** in accordance with the applicable cost principles. The Handbook further states that costs associated with a specific support grant must be identified prior to the initiation of the program. Items such as salaries, travel, and other direct costs that are to be reimbursed should be clearly defined and supported, since an analysis of these cost items will be used to determine the amount of funding needed to support the program. The grant officer's memorandum of negotiation is to include a discussion of the proposed budget, **including justification for all cost elements.**

While agreement files contained negotiation memoranda stating that the Organizations' proposed costs were reasonable, **the basis for those conclusions was not documented in the agreement files.** In general, we found that the agreement files did not include documentation supporting the proposed costs or supporting the grant officer's determination that the proposed costs were reasonable and allowable. We reviewed four agreements valued at \$90.4 million from the universe of 43 agreements valued at \$169.2 million and found problems with all four agreements. For example:

- There were two Memoranda of Negotiation for the first Organization's cooperative agreement totaling \$59.7 million. In September 1986, the initial memorandum for \$15.7 million stated that the proposed costs "**appear to be reasonable**", that the technical assistance effort was reduced from 60 months to 50 months, that logistics support costs were reserved for direct USAID expenditure to support the Organization, and that program costs for the procurement of project commodities will be under a separate contract and charged to the Organization. However, the memorandum did not state how the grants officer concluded that costs appeared to be reasonable.

In February 1989, a second memorandum increased the estimated cost by \$44.0 million to its final cost of \$59.7 million. This memorandum showed the proposed and agreed-to cost elements for broad categories of technical assistance, logistics support, and program costs. While the memorandum stated that a detailed cost build-up was included as an attachment, such an attachment was not in the file and could not be located. Therefore, there was no documentation available to determine what analysis the grants officer made to determine that costs of \$59.7 million were reasonable and allowable.

- A March 1990 memorandum of negotiation was approved by the grants officer for the second Organization's cooperative agreement for \$11.8 million. The memorandum states that a full, detailed analysis was attached but the attachment could not be located. The memorandum generally discusses various elements; but without the analysis, there was no support to determine how detailed the analysis was. Two other memoranda of negotiation increasing the agreement to its current total of \$25.4 million were not in the agreement file, and we could not, therefore, determine if the costs were reasonable and allowable.
- The March 1991 memorandum of negotiation for a cooperative agreement for the third Organization stated that the proposed costs were "**fair and reasonable**" but does not provide evidence of the rationale supporting that statement. The negotiated amount of \$2.2 million was about \$150,000 lower than the Organization had proposed. Grants office personnel said that the fair and reasonable conclusion was

based on their experience and on consultations with the Project Officer. In September 1991, another \$600,000 was added to the agreement but there was no detailed analysis in the file to determine if the price was reasonable and allowable. Another memorandum of negotiation adding \$1.5 million to the agreement and bringing total costs to \$4.3 million was not in the agreement file and we could not, therefore, determine what had been done to review additional costs.

- A July 1990 memorandum of negotiation for a cooperative agreement with the fourth Organization for \$500,000 stated that **"A thorough and detailed analysis on each subcontract and program has been carried out. The analysis demonstrated that the individual line items' cost was fair, reasonable, and necessary ..."** This detailed analysis was not in the agreement file and also could not be located. In a July 1991 memorandum of negotiation, the estimated cost for the agreement was raised \$500,000 to its current total of \$1.0 million. The additional \$500,000 was said to be fair and reasonable but there was no basis to support that statement.

The previous agreements were negotiated without following A.I.D. Handbook 13 procedures for documenting the review of reasonableness and allowability of proposed costs. They added that the O/AID/REP was required to respond quickly to the needs of the program and that some procedures for preparing supporting documentation may have been omitted.

Another O/AID/REP official stated that, in the early stages of the Afghan program, the mission of providing aid to the Afghan people took precedence over administrative matters because of the urgency of the program. That official added that no one was concerned with documenting decisions because they were too busy implementing the program. The official also said that **"... there was no concern from AID/W about how the program was run."**

Because there was insufficient evidence to substantiate that all cost elements had been reviewed and to support the determination that proposed costs were reasonable and allowable, A.I.D. cannot be assured that approximately \$90.4 million in proposed costs approved for the four agreements we reviewed were reasonable and allowable.

In conclusion, the O/AID/REP needs to follow A.I.D. Handbook 13 requirements to review each cost element of an Organization's proposal for reasonableness and allowability and that the results of such reviews are documented in the agreement file.

### **Management Comments and Our Evaluation**

The O/AID/REP concurred with the finding and recommendation. A comprehensive checklist and supervisor review procedures were developed which will aid in ensuring that each cost element is reviewed for reasonableness and allowability and that results are documented in the agreement file. Based on the O/AID/REP's response, Recommendation No. 2 is closed.

### **Benchmarks to Measure Progress and Results Were Not Established**

The O/AID/REP did not ensure that required benchmarks to measure progress and results of grants and cooperative agreements were negotiated and established for the agreements. This occurred because the O/AID/REP generally did not know what could be accomplished in the difficult circumstances of the Afghan program so benchmarks were not established. Consequently, the O/AID/REP could not objectively assess the progress of three of the five agreements we reviewed. These three agreements had an estimated cost of \$31.9 million.

**Recommendation No. 3: For future agreements, we recommend that the O/AID/REP ensure that all Organizations establish performance indicators as required by the respective agreements and by A.I.D. Handbook 13.**

A.I.D. Handbook 13, Chapter 4 states that an Organization should develop an application which, for purposes of good management, provides a clear summary of what is to be accomplished, the resources and steps required to meet objectives in an identifiable period of time, a realistic financing scheme, and **benchmark measures of progress toward the objectives**. Generally, the Organizations' "program description" is the document that includes these benchmarks. A.I.D. Handbook 3, Supplement A emphasizes the importance of the statement of work:

*The Statement of Work [or Program Description] is probably the most important single portion of the ... resultant grant or cooperative agreement. The attachment needed here is a document which clearly spells out A.I.D.'s requirements. It should be written with enough specificity so that there will be no doubt of what is required. **It must provide for clear target dates which must be met, goals, and objectives for a particular project. Vague descriptions should always be avoided.***

From the inception of the program through December 31, 1992, the O/AID/REP had 43 agreements that had total estimated costs of \$169.2 million. We reviewed five of these agreements; the five agreements had total estimated costs of \$95.9 million. We found problems with three of the five agreements (estimated value \$31.9 million). The agreements contained vague descriptions, and lacked target dates and objectives for the projects. For example:

- The Scope of Work for one Organization states that a consolidated implementation plan will be developed jointly by the Organization and the Mission Agriculture Officer within 45 days of the date of the cooperative agreement. The document further states that "This plan will be a consolidation of all the various implementation plans for each of the project's eight major activities and will schedule and quantify each of the eight specific objectives described in Section III of this Scope of Work: (1) irrigation; (2) rural roads/bridges restoration; (3) subcontracting engineering services; (4) Agriculture Rehabilitation Scheme planning; (5) poppy production control; (6) training; (7) monitoring; and (8) Afghan entity development." In the 1991/92 workplan for example, a total of 819 irrigation projects were planned for the coming year. However, the workplan did not set clear target dates by when the work would be completed. The estimated costs of this agreement was \$25.4 million.
- The implementation plan for another Organization deals with generalities except for the number of students. For one part of the program it was stated that "... one educator familiar with regional engineering education will visit Peshawar for a period of approximately eight weeks to work with all construction-related programs, as described below." The description below that states, "Visiting faculty ... will

participate as occasional instructors and advisors for curriculum development and practical training. Possibly the visiting faculty member will be presenting one course in the Construction Engineering Program." This description does not set clear target dates, goals, and objectives. The estimated cost of this agreement was \$1.0 million.

- The description for a third Organization stated that a separate organization will provide a monthly schedule each quarter giving the date, day, and time of physician screening at each hospital. There was no evidence of a workplan or benchmarks - only the monthly schedule that appears in the description of the program. The estimated cost of this agreement was \$5.5 million.

The O/AID/REP officials said that they generally did not know what could be accomplished early in the program due to the difficult circumstances the Afghan program was established under. Specifically, Soviet troops were waging war with Afghan mujahideen until February 1989 and the Soviet-backed government did not leave Afghanistan until April 1992.

The lack of benchmarks makes it difficult, if not impossible, for the O/AID/REP to objectively assess the progress of the Organizations under agreements for which the Organizations have expended about \$19.6 million as of December 1992. This lack of benchmarks is a contributing factor to problems we noted with Organizations' performance reporting discussed on pages 38 to 42 of this report. Therefore, the O/AID/REP needs to ensure that all Organizations establish benchmarks that can be used to assess progress against project goals.

### **Management Comments and Our Evaluation**

The O/AID/REP concurred with the finding and recommendation. A comprehensive checklist and supervisor review procedures were developed which will aid in ensuring that recipients establish benchmarks to assess progress against objectives. Based on the O/AID/REP's response, Recommendation No. 3 is closed.

## **Eligibility of Organizations to Receive A.I.D. Funds Was Not Verified**

The O/AID/REP did not verify, as required, the registration and eligibility of Organizations to receive grants or cooperative agreements for three of the five Organizations we reviewed. The O/AID/REP awarded agreements to three Organizations whose eligibility it did not verify. These Organizations had estimated costs totaling \$86.1 million. Registration of Organizations was verified only if the name of the Organization was not familiar to the O/AID/REP personnel. Not verifying eligibility could lead to awarding agreements to Organizations who are not registered to receive assistance under the Organization grant program.

**Recommendation No. 4: We recommend that the O/AID/REP comply with the requirement set forth in A.I.D. Regulation 3 to verify the registration of Organizations for grants and cooperative agreements and then document the results of this verification.**

A.I.D. Regulation 3 in Handbook 3, Chapter 4 requires Organizations that receive grants be included on a list of Organizations registered with A.I.D. The registration process provides the information necessary to determine if an Organization meets the funding requirements of Section 123(g) of the FAA. This section requires that an Organization **must** obtain at least 20 percent of its total annual financial support for its international activities from sources other than the U.S. Government in order to be eligible to receive funding under the Organization grant program. Preference is given to those Organizations receiving cash from private sources.

An O/AID/REP official stated that they only verified the registration of Organizations if the Organization was not known to them. In addition, another O/AID/REP official stated that the first AID/REP did not care if an Organization was registered with A.I.D. as long as that Organization would get the work done. There was no evidence in the files that any verification was done for three of the five<sup>1</sup> Organizations we selected for our review. The three Organizations had agreements totaling \$86.1 million.

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<sup>1</sup> *Four of the recipients were U.S.-based international private voluntary organizations. The fifth recipient was an international organization based in Switzerland.*

The initial memoranda of negotiation for the three Organizations did not address the eligibility of the Organizations to receive a grant or cooperative agreement. However,

- A September 1986 memorandum of negotiation for the cooperative agreement with the first Organization alluded to a previous relationship between A.I.D. and this Organization. However, the Organization's eligibility to receive an agreement was not addressed in the memorandum. This Organization was not listed as an eligible organization in A.I.D. Handbook 3, Appendix 4D. This Organization's cooperative agreement totaled \$59.7 million.
- For the second Organization, a March 1990 memorandum of negotiation stated that the O/AID/REP had previous experience with this Organization. However, the Organization's eligibility to receive an agreement was not addressed in the memorandum. This Organization was listed as an eligible organization in A.I.D. Handbook 3, Appendix 4D. The cooperative agreement with this Organization totals \$25.4 million.
- For the third Organization, a July 1990 memorandum of negotiation stated that the O/AID/REP had previous experience with this Organization. However, the Organization's eligibility to receive an agreement was not addressed in the memorandum. This Organization was listed as an eligible organization in A.I.D. Handbook 3, Appendix 4D. The cooperative agreement with this Organization totals \$1.0 million.

The O/AID/REP needs to take steps to comply with A.I.D. Regulation 3 by verifying that Organizations with grants and cooperative agreements are registered, and to then document the results of that verification. One step the O/AID/REP might take would be to compile a checklist of key actions that must be taken before awarding an agreement, and to include the verification of eligibility on that checklist. The checklist would then be filed in the agreement file when all actions are complete.

### **Management Comments and Our Evaluation**

O/AID/REP generally concurred with the finding and recommendation. The O/AID/REP stated that U.S. Private Voluntary Organizations to whom

the grants were given were registered Organizations as per listing of Handbook 3, Appendix 4. However, the O/AID/REP acknowledged that this verification data should have been placed in the negotiation memorandum and the agreement files. The O/AID/REP stated that the registration of Private Voluntary Organizations will be checked and this fact documented in the agreement files for future agreements. Based on the O/AID/REP's response, Recommendation No. 4 is closed.

### **Management Capability/Qualifications of Organizations Were Not Determined**

Contrary to A.I.D.'s policy and procedures, the O/AID/REP did not substantiate that four organizations in our sample were qualified to perform the agreement. These four organizations had estimated costs of \$90.4 million. The O/AID/REP officials said that because of the need for a rapid response, Organizations were awarded grants without taking the time to confirm their qualifications. Not substantiating the qualifications of organizations increases the risk that some qualification standards may not have been adequately considered, thereby increasing the O/AID/REP's vulnerability to awarding an agreement to an Organization which lacks the necessary qualifications to carry out the proposed program or to comply with agreement terms or conditions.

#### **Recommendation No. 5: We recommend that the O/AID/REP:**

- 5.1 develop and use a checklist of standards contained in A.I.D. Handbook 13; and**
- 5.2 include the source material supporting the considerations in the file or cross-reference to other information, such as recent financial audits, other reviews, or trip reports.**

A.I.D. Handbook 13, Chapter 4, states that to be eligible to receive a grant or cooperative agreement, an Organization must satisfy A.I.D. that it possesses, or has the ability to obtain, the necessary management competence in planning and carrying out assistance programs and that it will practice mutually agreed-upon methods of accountability for funds and other assets provided by A.I.D. The Organization **must** demonstrate potential or actual management ability and the capacity to plan and implement programs in the field of the Organization's expertise. Furthermore, the Organization's accounting, recordkeeping, and overall

financial management system **must** meet the standards set forth in A.I.D. Handbook 13, standards which are taken from OMB Circular A-110.

Before making an award, the grants officer must determine whether the Organization is able to meet the standards outlined in A.I.D. Handbook 13. To make this determination, the grants officer can conduct an informal or desk survey or establish a formal survey team consisting of representatives of the cognizant Regional Inspector General's Office, the sponsoring technical office, and the grants office. The grants officer's memorandum of negotiation should include a discussion of the Organization's management responsibility, policies, organization, financial aspects, etc. and the rationale for determining responsibility.

The determination as to the qualifications of an Organization is a key internal control technique intended to ensure that the mission selects a nonprofit organization capable of carrying out the proposed program and of complying with the terms and conditions of the grant or cooperative agreement. The General Accounting Office's 1983 publication "Standards for Internal Controls In the Federal Government," which the Federal Managers' Financial Integrity Act of 1982 requires Federal Agencies to follow, requires written evidence of (1) an agency's internal control objectives and techniques and accountability systems and (2) all pertinent aspects of transactions and other significant events of an agency. These standards further specify that documentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transaction or event and related information. To conform to General Accounting Office's internal control standards, the Mission needs to ensure that it fully documents the determinations as to the qualifications of an Organization.

Documentation for one agreement was done at AID/W and we did not review that documentation. However, there was no documentation in the grants files for the remaining four agreements reviewed which could be used to assess the Organizations' (1) management competence and their ability to implement and manage the projects or (2) accounting recordkeeping and overall financial management system as required by Handbook 13. For example:

- In September 1986, the memorandum of negotiation for one Organization stated that *"Following numerous discussions between the O/AID/REP (AREP) and ANE Bureau, and exchange of many messages, mostly classified, it was*

*agreed to contract<sup>2</sup> with [the Organization] for the Health Sector Support Project. Authorization of the project, and to negotiate on a non-competitive basis with [the Organization] was granted on 8/8/86 by AA/ANE." The Action Memorandum signed by AA/ANE on August 8, 1986, stated that the "Bureau review focussed primarily on budgetary questions and administrative and institutional arrangements for implementation." The memorandum did not go into further detail as to what was done. However, there was no evidence in the O/AID/REP agreement file to show that: (1) the proposal was reviewed; (2) personnel and travel policies were reviewed; (3) financial resources were reviewed; or (4) financial systems were evaluated. The estimated value of this cooperative agreement eventually totaled \$59.7 million.*

- In March 1990, the memorandum of negotiation for another Organization stated that the Organization was uniquely qualified to handle this activity based on its predominant capability in Afghanistan cross-border rural rehabilitation activities. However, the proposal was not available in the grants files and there was no evidence that the proposal was reviewed. There was also no evidence that any analysis of the Organization's financial capabilities were made. The estimated value of funds granted to this Organization eventually totaled \$25.4 million.
- In May 1991, the memorandum of negotiation for a third Organization stated that the Organization was awarded an agreement for its ongoing program which implements and improves the delivery of health services through its clinics in Afghanistan. The memorandum further stated that the Organization was chosen because of their experience with health activities in Afghanistan. The Organization had a health grant from the O/AID/REP since 1985. The grants officer limited competition because the Organization was already carrying out health activities and running health clinics in Afghanistan. However, there was no documentation in the agreement file to show that: (1) the proposal was reviewed for sufficiency, except for marginal notes in the

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<sup>2</sup> *The contract was later changed to a cooperative agreement as mutually agreed to by the Recipient and AID/W.*

proposal; (2) personnel and travel policies were reviewed; (3) financial resources were reviewed; or (4) financial systems were evaluated. The estimated cost for this Organization eventually totaled \$4.3 million.

- In July 1990, the memorandum of negotiation for a fourth Organization stated that the Organization had run a training program for two years and was selected to carry out construction-related training activities in Afghanistan. However, there was no documentation in the agreement file to show that: (1) the proposal was reviewed; (2) personnel and travel policies were reviewed; (3) financial resources were reviewed; or (4) financial systems were evaluated. The estimated cost to A.I.D. this Organization eventually totaled \$1.0 million.

We acknowledge that the Organizations we reviewed had experience in Afghanistan and one Organization had even written a book on its experiences in administering health programs in Afghanistan. This provides a base of experience with which the O/AID/REP may judge the qualifications of Organizations. However, this does not necessarily reduce the possibility that the O/AID/REP may select an Organization which is not qualified to carry out a program or who cannot meet the terms and conditions of the agreement.

We noted, for example, that two non-Federal audit reports were issued in April 1991 of other Missions' contracts with one Organization, covering periods from April 1983 through June 1989. Both audits found internal control problems with the Organization including not maintaining adequate accounting records and sufficient evidential documents supporting the allowability of salary and allowance expenditures charged to the contracts. Therefore, although previous audits had shown that it was lax on internal controls with contracts at other Missions, this Organization was still awarded an agreement subsequently reaching \$59.7 million.

We also noted that a Single Audit Report issued in October 1990 dealt with two grants awarded to the third Organization by the O/AID/REP. The audit reported that (1) the Organization received verbal approval for expenditures from the O/AID/REP without receiving subsequent written approval; (2) there was a lack of segregation of duties at the Organization's warehouse operations in Pakistan; (3) quotations from medical suppliers were destroyed after goods were received and invoices had been agreed to; (4) the Organization made major medical purchases

from only three medical suppliers without documenting the reasons why; and (5) personnel files for local employees were not maintained nor were attendance records used to track labor for payroll purposes. The management of the Organization agreed with the findings and recommendations. In May 1991, this Organization was awarded an agreement by O/AID/REP subsequently totaling \$4.3 million even though documentation of its qualifications which may have raised questions about these problems, was not made.

The qualifications determination of Organizations is also a key consideration when determining the appropriate financing method (letter of credit, periodic cash advance, or reimbursement by U.S. Treasury check). As discussed on pages 33 to 36 of this report, we found that the O/AID/REP used periodic cash advances for some Organizations who, if a proper qualifications determination had been made, would possibly have qualified for A.I.D.'s preferred letter of credit financing method. Since the qualifications determinations for these Organizations were not documented, we could not determine if the O/AID/REP had properly considered the conditions specified in A.I.D. Handbook 1 and OMB Circular A-110 for using a letter of credit method of financing.

In conclusion, the O/AID/REP needs to better document its qualifications determinations of Organizations. The Mission should consider the standards contained in A.I.D. Handbook 13 and then document these considerations. The Mission should develop a checklist of these standards to ensure that all standards are considered, and then either include the source material in the file or cross-reference to other information, such as recent financial audits, other reviews, or trip reports.

### **Management Comments and Our Evaluation**

O/AID/REP concurred with the finding and recommendation. A comprehensive checklist and supervisor review procedures were developed which will aid in ensuring that qualifications standards are considered. The O/AID/REP will either include the source material in the file or cross-reference it to other information such as recent financial audits, other reviews, or trip reports. Based on the O/AID/REP's response, Recommendation Nos. 5.1 and 5.2 are closed.

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**Did the Office of the A.I.D. Representative for Afghanistan Affairs obligate, expend, and account for funds, including advances, for grants and cooperative agreements in accordance with A.I.D.'s policies and procedures and applicable laws and regulations?**

The O/AID/REP generally obligated, expended, and accounted for grant and cooperative agreement funds in accordance with A.I.D.'s policies and procedures and applicable laws and regulations, although improvements were needed in some areas.

The O/AID/REP recorded budget allowances before prevalidating and obligating funds, accurately recorded funds to their proper projects and accounts, ensured that obligations did not exceed budget allowances, ensured that disbursements did not exceed obligations, and adequately dealt with interest-bearing accounts for local currency needs of Organizations.

Our audit, however, identified some areas needing improvement. The O/AID/REP needs to ensure that:

- the appropriate financing method is selected; and
- advance requests are properly reviewed and supported.

These problem areas are discussed in more detail below.

**The O/AID/REP May Not Have Selected the Most Appropriate Financing Method**

For three of the four agreements in our sample, the O/AID/REP used periodic cash advances to finance agreements and did not consider other financing methods as set forth in Handbook 1 and OMB Circular A-110. The estimated costs of the three agreements are \$30.7 million. This occurred because the O/AID/REP did not establish procedures to ensure that the requirements were followed. By financing the agreements with periodic cash advances instead of the preferred letter of credit method, the O/AID/REP increased the risk that Organizations' federal cash balances exceeded immediate cash needs.

**Recommendation No. 6: We recommend that the O/AID/REP:**

- 6.1 review existing financing arrangements with Organizations to determine if the arrangements are in accordance with A.I.D. Handbook 1 and OMB Circular A-110, then make the changes accordingly;**
- 6.2 for future agreements, take steps to ensure that OMB Circular A-110 and A.I.D. Handbook 1 requirements are considered and that the determination is documented before selecting the financing method.**

OMB Circular A-110, and A.I.D. Handbook 1, Supplement B, Chapter 15 state that the preferred methods of financing nonprofit Organizations and lists them in order of declining priority: letter of credit, advance by U.S. Treasury check (periodic cash advance), and reimbursement by U.S. Treasury check. Handbook 1 and OMB Circular A-110 also state that **the letter of credit method is required for advance payments when the following four conditions are met:**

- (1) the amount required for advance financing equals or exceeds \$120,000 per year;
- (2) there will be a continuing relationship with the Organization for at least one year;
- (3) the Organization has the ability to maintain procedures that will minimize the time elapsing between the transfer of funds and their disbursement; and
- (4) the Organization's financial management system meets U.S. Government standards for fund control and accountability.

Three of the four organizations we reviewed were receiving Treasury check advances. Our review showed that the O/AID/REP used the Treasury check method without performing the required evaluation to determine the appropriate method of financing. Our review also showed that the Organizations receiving the Treasury check advances may have qualified for the letter of credit financing method. For example:

- All three Organizations receiving Treasury check advances had agreements of at least \$10 million and were receiving cash advances in excess of \$120,000 a year, thereby meeting the first condition that advance financing equal or exceed

\$120,000 per year. The estimated value of the three agreements totaled \$30.7 million.

- All three Organizations had agreements with a period of performance of at least one year, thereby meeting the second condition that the O/AID/REP would have a continuing relationship with the Organization for at least one year.
- The Grants Officer determined, but did not document (as discussed on pages 28 to 32 of this report), that the Organizations' financial management system met Federal standards.
- Organizations may have had the ability to maintain procedures that would minimize the time elapsing between the transfer of funds and their disbursement, but the grant officer did not examine this issue.

The O/AID/REP officials stated that the Treasury check method was used because it provided the O/AID/REP with better control over funds. But O/AID/REP did not document their position that it provides better funds controls, nor did they document that OMB Circular A-110 and A.I.D. Handbook 1 requirements were considered before selecting the financing method. This occurred because the O/AID/REP lacked procedures to ensure that the requirements were followed and the determinations documented.

By financing the agreements with periodic cash advances instead of the preferred letter of credit method, the O/AID/REP increased the risk that Organizations' federal cash balances exceeded immediate cash needs.

The O/AID/REP should review the financing arrangements with Organizations to determine if financing should be changed to a letter of credit. If so, the O/AID/REP should make the change at the earliest opportunity. For future agreements, the O/AID/REP should establish procedures to ensure that OMB Circular A-110 and A.I.D. Handbook requirements are considered and that the determination is documented before selecting the financing method and document this consideration.

### **Management Comments and Our Evaluation**

O/AID/REP officials agreed with the finding; however, they did not fully agree with the recommendation. The O/AID/REP reviewed the existing

financing arrangements of grants and cooperative agreements and found some are not in accordance with A.I.D. Handbook 1. However, the O/AID/REP determined that it would not be practicable to change the grants and cooperative agreements to the Letter of Credit method of financing as all of the grants/cooperative agreements expire in one year or less. Officials also stated that it would be extremely difficult to halt the current method of financing and to reconcile the financial records of all grants and cooperative agreements in an effort to determine which funds would be disbursed using the Letter of Credit method. But for all future agreements, the O/AID/REP developed a checklist and supervisor review procedures to aid in ensuring that OMB Circular A-110 and A.I.D. Handbook requirements are considered and that the determination is documented before selecting the financing method. Based on the O/AID/REP's response, Recommendation Nos. 6.1 and 6.2 are closed.

**Cash Advances Exceeding the 30-Day Needs of the Organizations Were Not Approved by the AID/REP**

Contrary to A.I.D. policy, cash advances exceeded the 30-day cash needs of the Organizations and were not approved by the AID/REP. This occurred because the responsible the O/AID/REP officials were not aware of the requirements.

**Recommendation No. 7: We recommend that the O/AID/REP ensure that all cash advances to nonprofit organizations which exceed the 30-day period are justified and are approved by the AID/REP.**

A.I.D. Handbook 1B (Procurement Policies) Chapter 15 (Methods of Payment to Supplies, Contractors and Grantees) specifies that when cash advances are made to a nonprofit organization by Treasury check they should not be provided for a period which exceeds 30 days. When circumstances warrant a period longer than 30 days, either the assistant administrator or the bureau or the mission director must justify in writing that implementation will be seriously interrupted or impeded by the 30-day rule. Advance payments are to be based upon an analysis of the cash required under each grant, taking into consideration the reimbursement cycle.

Cash advances to Organizations exceeded the 30-day advance period and were not justified in writing or approved by the AID/REP. For example:

- One organization requested an advance of \$800,000 for January through March 1992. The project officer recommended reducing the advance to \$600,000. The advance of \$600,000 was provided to the organization, but the AID/REP did not approve the advance as required.
- Another organization requested an advance of \$748,360 for May and June 1992. That advance was provided to the organization in May 1992, but the AID/REP did not approve the request as required.

Responsible O/AID/REP officials stated that they were not aware of the requirement. Thus, the O/AID/REP should ensure that responsible personnel are aware of the requirements, review current advances to nonprofit Organizations which exceed the 30-day period and ensure that the advances are justified and approved.

#### **Management Comments and Our Evaluation**

O/AID/REP concurred with the finding and recommendation. All advances for periods of more than 30 days which were processed have been subsequently reviewed, justified and approved by the AID/REP. The O/AID/REP issued a Mission Notice dated December 29, 1992, outlining the policy and procedures on advances by Treasury check to contractors, grantees, and recipients of cooperative agreements. Based on the O/AID/REP's response, Recommendation No. 7 is closed.

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**Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in establishing and implementing a monitoring, reporting, and evaluation system to ensure that nonprofit organizations implement grants or cooperative agreements in accordance with program descriptions and applicable provisions of the agreements?**

The O/AID/REP followed some A.I.D. policies and procedures in establishing and implementing a monitoring, reporting, and evaluating system for grants and cooperative agreements to ensure that nonprofit organizations implemented grants or cooperative agreements in accordance with program descriptions and applicable provisions of the agreements. However, improvement could be made in reporting on performance and tracking evaluation recommendations.

The O/AID/REP project officials were making site visits, mainly to locations in Pakistan because of the travel restrictions to Afghanistan. Project officials kept on top of problems and were constantly involved with Organizations in correcting problems. Limited end-use checks inside Afghanistan were made by the O/AID/REP's Data Collection and Analysis Unit.

External evaluations were performed for the agreements we reviewed; however, all recommendations were not implemented or addressed as required by A.I.D. Handbook 3. The O/AID/REP did not have a system to ensure that all evaluation recommendations were addressed. We are not making a recommendation in this report as this issue will be addressed in our audit report of the A.I.D. Representative's Controls Over Training for the Afghanistan Cross-Border Program (Audit Report No. 5-306-93-10).

As discussed below, the O/AID/REP needs to ensure that Organizations prepare and submit performance reports that include information essential to objectively measuring performance.

## **Performance Reports Did Not Contain Comparative Information**

Reports issued by Organizations did not contain comparative information needed by project officers to determine if the Organization was accomplishing agreed-to goals. OMB Circular A-110, A.I.D. Handbook 3, and the agreements required comparative data. The O/AID/REP officials said that because of the rapidly changing nature of the program, Organization objectives were kept vague and general to allow for flexibility. They did not want to tie the Organizations down to quantifiable objectives that would quickly become inoperative. But without this comparative data, it was difficult to determine what had been accomplished and whether the Organizations were working towards coherent objectives. As a result, the O/AID/REP was not receiving information it needed to measure the Organizations' performance under agreements totaling \$108.6 million of estimated costs.

**Recommendation No. 8: We recommend that the O/AID/REP ensure that Organizations report on goals and accomplishments in their quarterly reports, as required by OMB Circular A-110, A.I.D. Handbook 3 and the respective agreements.**

Attachment H of OMB Circular A-110 requires that the sponsoring agency monitor the Organization's performance of the grant. In implementing this requirement, A.I.D. Handbook 3, Supplement A requires project officials to assure that the nonprofit organization submits such reports as are required by the terms of the grant or cooperative agreement. Upon receipt of each report, the project officer is expected to review the document and comment upon its adequacy and responsiveness. When a substantive problem requiring the attention of A.I.D. arises during the course of implementation, the project officer should initiate action to address the problem. The grant and cooperative agreements for organizations reviewed in this report required:

- A comparison of actual accomplishments with the goals established for the period.
- Reasons why established goals were not met.

Although Organizations were submitting the required performance reports, the reports did not lend themselves to easy analysis of progress. This occurred because A.I.D. did not establish a good system for

monitoring performance and the O/AID/REP did not establish benchmarks. Management practice dictates that progress against benchmarks be clearly stated. The lack of clear quarterly reports could lead to incomplete or inadequate reporting of progress. For example:

- Quarterly reports issued by one Organization did not fully address the benchmarks set in its yearly workplan. The project officer stated that the quarterly reports revised the workplan and provided the flexibility to adjust to changes in the program. However, the quarterly reports did not contain objective information by which the accomplishments could be judged. For instance, the June 1992 report stated that the Organization would resume basic health worker technical assessments inside Afghanistan. The September 1992 report stated that 113 basic health workers were assessed during the quarter. Without a benchmark to measure this accomplishment, we do not know if the 113 reported worker assessments is acceptable progress. The agreement for this Organization totals about \$59.7 million.
- The quarterly reports of another Organization show numbers of roads and bridges under construction or completed. However, as mentioned earlier in this report, there were no benchmarks set to determine if achieved accomplishments were satisfactory. The reports were confusing. In its September 1991 report, for example, the Organization stated that, in this quarter, "... no road rehabilitation or bridge project was reported completed." However, a schedule in the same report showed that seven road rehabilitation projects and ten bridges had been completed. Further review leads us to believe that the figures are cumulative to date. We do not know, from the quarterly reports, if the numbers of roads rehabilitated, bridges built, or other accomplishments represent acceptable progress due to the lack of benchmarks. The agreement for this Organization totals about \$25.4 million.
- A third Organization reported in its June 1992 quarterly report that a subgrantee had continued work on a \$265,892 subgrant during the quarter. One of the reported accomplishments of the subgrantee was the repair of 38.2 kilometers of road to date. There was no quantifiable indicator to determine if that quantity of road repair was acceptable progress. Overall, there were no workplans

developed to identify benchmarks set to compare the accomplishments of anything done by this Organization. The agreement for this Organization totals about \$19.2 million.

- A fourth Organization set goals in its cooperative agreement. While some goals were addressed in the quarterly reports, other goals were not. One goal was to add staff and develop facilities as central referral sites for small district-level hospitals, constructed by the World Health Organization, in Afghanistan. Linking these facilities to other Organization clinics was to be the **KEY** objective for the Organization's Afghan clinic operations in 1991. Only the construction of the buildings was discussed in the subsequent four quarterly reports we examined. The agreement for this Organization began in May 1991 and totals about \$4.3 million.

An O/AID/REP official stated that the O/AID/REP can report on inputs and outputs but have not been able to measure outputs against baseline data because that data did not exist at the time the program started. He said that the O/AID/REP plans to develop baseline data so that they can determine the effect of their efforts on the Afghan society. The official also said that the O/AID/REP will develop quantifiable indicators (benchmarks) so that accomplishments may be measured against a goal in the future. Quantifiable indicators were not established because it would have been a paper exercise that would not have meant much due to the constantly changing situation in Afghanistan. Rather than requiring the Organizations to go through an exercise to establish goals which they would probably not accomplish, the O/AID/REP set general goals, such as basic health or irrigation systems, in all provinces and allowed the Organizations to determine where and when to accomplish these goals.

The O/AID/REP is in the process of developing a Strategy Document discussing the future direction of the Afghan program. The draft document contains some indicators and dates by which the indicators are expected to be achieved.

In conclusion, the O/AID/REP did not receive reports showing a comparison between goals and accomplishments from the Organizations. The O/AID/REP needs to take steps to ensure that Organizations compare goals and accomplishments in their quarterly reports. One method of doing this would be to require a standard format for all Organizations to follow when reporting on their progress.

## **Management Comments and Our Evaluation**

O/AID/REP officials generally concurred with the finding and recommendation. They stated that each Organization operating cross-border activities was required to employ monitors to check and report on activities implemented inside Afghanistan. They stated that the grantees do report separately on special implementation problems such as possible losses discussed as well as include in their quarterly reports additional actions undertaken and current project status. All appropriate officers have been instructed to monitor their grantees' reporting. Based on the O/AID/REP's response, Recommendation No. 8 is closed.

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**Did the Office of the A.I.D. Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in the close-out, suspension, or termination of grants or cooperative agreements?**

No cases were identified where grants or cooperative agreements should have been suspended or terminated. However, the O/AID/REP did not follow A.I.D.'s policies and procedures for closing out expired grants. Grants under \$500,000 in value were adequately closed out; however, no grants over \$500,000 in value had been closed out.

**Grants Over \$500,000 Were Not Closed Out**

Completed grants were not closed out as required by OMB Circular A-110 and A.I.D. procedures. The O/AID/REP officials said that the O/AID/REP personnel did not know the proper procedures for closing out grants. They believed that action to close out grants and cooperative agreements should not be initiated until the audit was completed. Consequently, action that should have been taken prior to the Organization's departure had not been completed; action such as ensuring that Organizations had complied with and met all applicable terms of the agreements, and accounting for and disposing of non-expendable property. As a result, 15 grants totaling approximately \$29.8 million were not closed out.

**Recommendation No. 9: We recommend that the O/AID/REP close-out all applicable grants as required by OMB Circular A-110 and A.I.D. procedures.**

A.I.D. Handbooks 3 and 13, Contract Information Bulletin 90-12, dated June 8, 1990, and OMB Circular A-110 require that A.I.D.-funded grants and cooperative agreements be closed out according to prescribed procedures. Contract Information Bulletin 90-12 states that the contracting officer should take the lead role in ensuring that close outs are accomplished. Closing out of a completed grant or cooperative agreement includes these specific actions:

- The project officer must notify the grants officer when an Organization has completed its activities in accordance with the provisions of the grant or cooperative agreement.

- The grants officer must request the paying office to recover all payment advances, if any, and to adjust the accounting records to reflect the deobligation of the difference, if any, between the final price and the funds obligated in the grant or cooperative agreement.
- The grants officer must request the Organization to submit a final inventory of all residual non-expendable property titled to the U.S. Government and/or residual property valued over \$1,000 titled to the Organization, which was furnished or acquired under the grant.
- Any property which will become titled in the Host Country should be identified. The grant officer should also confirm that inventory records furnished by the Organization are complete and up-to-date and that the disposition of all property conforms to stipulations of Handbook 13 and that the identity of all property Organizations is clearly indicated.
- For grants in excess of \$500,000, the grants officer must request a final audit of costs incurred.
- The Mission should also ensure that the nonprofit organization complied with the audit provisions in their grant or agreement.

The O/AID/REP properly closed out grants which were valued at less than \$500,000 as these grants did not require a final audit. But the O/AID/REP had not closed out grants which were valued in excess of \$500,000. As of September 30, 1992, the O/AID/REP had 15 grants totaling \$29.8 million that had expired. Of these 15 grants:

- Eight grants totaling \$7.7 million had not been closed-out despite having been expired for at least four years. The O/AID/REP had requested audits on all eight grants although the audit reports had not been received. However, the grants had not yet had other close-out actions completed.
- Six other grants totaling \$22.1 million had been expired for at least one year. No close-out actions had started on any of these six grants.
- One grant totaling \$50,000 had been expired for about six months. No closeout actions had begun on that grant.

Grants Office personnel believed that action to close out grants should not be taken until a final audit was completed and the report received. By not closing out agreements as required, the O/AID/REP lacked adequate controls over the accounting and disposal of non-expendable property acquired by the Organizations; the deobligation of any excess funds; and the obtaining of close-out audits.

In conclusion, the O/AID/REP needs to take steps to close out all expired grants identified in this section of the audit report. These steps should include training the appropriate Grants Office personnel in the procedures for and the importance of closing out grants in a timely manner.

### **Management Comments and Our Evaluation**

O/AID/REP officials concurred with the finding and recommendation. They stated that they are currently closing out all applicable grants and are working with the Office of Procurement to obtain final overhead and indirect cost rates to complete the closure of the grants and cooperative agreements. Also, a new staff member was hired to close out grants, cooperative agreements, and contracts. Contract Information Bulletin 90-12 dated June 8, 1990 will be followed to close out these instruments. Based on the O/AID/REP's response, Recommendation No. 9 is closed.

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## SCOPE AND METHODOLOGY

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### Scope

We audited the Office of the A.I.D. Representative for Afghanistan Affairs's (O/AID/REP) controls over grants and cooperative agreements in accordance with generally accepted government auditing standards. Our audit tests were designed to provide reasonable assurance that the answers to the audit objectives were valid. The A.I.D. Representative for Afghanistan provided written representations that we considered essential to confirming our conclusions on the audit objectives and to assessing internal controls and compliance. These written representations have been included as part of the Mission comments attached to this report as Appendix II.

We conducted the audit from August 17, 1992 through February 10, 1993, and covered the systems and procedures relating to 43 grants and cooperative agreements administered by the O/AID/REP during the period October 1, 1986 to December 31, 1992. These 43 grants and agreements had cumulative estimated costs, obligations, and expenditures, as of December 31, 1992, of about \$169.2 million, \$151.3 million, and \$127.3 million, respectively. We did our field work in the offices of the O/AID/REP in Islamabad and Peshawar, Pakistan and of four Private Voluntary Organizations in Peshawar, Pakistan.

The audit did not assess:

- Project expenditures and activity within Afghanistan because of travel restrictions placed on U.S. citizens entering Afghanistan; and
  - Records of Organizations located in the United States.
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## **Methodology**

### **Objective One**

To determine what happened to the money and if it achieved its intended purpose, we analyzed the O/AID/REP and Organizations financial reports, progress reports, and other management reports to classify how the funds were spent and identify specific outputs resulting from these expenditures. We, however, could not confirm the accuracy of the reports because we were restricted from traveling in Afghanistan.

About \$127.3 million in grant and cooperative agreement funds were disbursed to 22 Organizations from the program's inception in 1985 through December 1992. The O/AID/REP had eight projects that included grants and cooperative agreements. We selected five organizations from four different projects, which accounted for about 59 percent (\$75.2 million) of the funds, for analysis. For the purpose of this audit, we categorize the applicable internal controls into two general areas: monitoring recipient inputs and accounting for the corresponding results.

### **Objective Two**

To answer the negotiating and awarding objective, we evaluated the O/AID/REP controls against criteria established in A.I.D. Handbooks 3 and 13, and OMB Circular A-110. We have classified the relevant policies and procedures into the following categories: eligibility of Organizations to receive A.I.D. assistance funds; qualifications of organizations to undertake the proposed work; evaluating recipient financial proposals; cost sharing by the recipient; program description; agreement authorization; and inclusion of proper clauses.

We discussed the memoranda of negotiation with members of the O/AID/REP Grants Office and with the Contracting Officer of USAID/Pakistan. For the total universe, there were 28 active agreements (estimated value \$162.2). We analyzed memoranda of negotiation and agreement files for four of these active agreements (estimated value \$90.4 million). However, we increased our sample size to five recipients to determine if performance indicators were established and eligibility of Organizations to receive grants was verified; these five agreements were valued at \$95.9 million.

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### **Objective Three**

To answer the accounting objective, we evaluated the O/AID/REP controls against criteria established in A.I.D. Handbooks 1, 13, 19, OMB Circular A-110, and the U.S. Treasury Fiscal Requirements Manual to determine if the O/AID/REP followed A.I.D. policy and procedures and applicable laws and regulations in obligating, expending, and accounting for funds, including advances, for grants and cooperative agreements. We have classified the relevant policies and procedures into the following categories: prevalidating and obligating funds for grants and cooperative agreements; supporting transactions with valid and binding documents; selecting the appropriate method of financing; ensuring that the amount of advances did not exceed immediate cash needs; and monitoring cash advances and liquidations.

We discussed accounting matters with the O/AID/REP Office of the Controller personnel. We reviewed 40 vouchers valued at \$31.3 million to determine if payment controls were adequate. We also reviewed nine advances valued at \$6.9 million to determine if controls over advances were adequate.

### **Objective Four**

To answer the monitoring objective, we evaluated the O/AID/REP controls against criteria established in A.I.D. Handbook 3 and OMB Circular A-110. We classified the relevant policies and procedures into the following categories: monitoring through site visits and follow-up with recipients; ensuring that the performance reports contained required information and are submitted on time; and ensuring that reviews and evaluations were performed and recommendations were addressed.

We discussed matters with the O/AID/REP project officers, Program Office personnel, and officials from various Organizations. We reviewed the monitoring, reporting, and evaluating of the O/AID/REP of four grants and cooperative agreements valued at \$108.6 million.

### **Objective Five**

To answer the close-out objective, we evaluated the O/AID/REP controls against criteria established in A.I.D. Handbooks 3 and 13, Contract Information Bulletin 90-12, and OMB Circular A-110. We classified the relevant policies and procedures into the following categories: identifying

agreements eligible for close-out or suspension/termination; accounting for A.I.D.-funded non-expendable property for completed agreements; recovering advances and deobligating any unexpended funds for completed agreements; and close-out audits.

We discussed matters with the O/AID/REP Grants Office personnel. We reviewed the steps taken to close out 15 expired grant agreements valued at \$29.8 million.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE AID REPRESENTATIVE

American Embassy  
Islamabad, Pakistan

May 5, 1993

Mr. James B. Durnil  
Regional Inspector General  
for Audits/Singapore  
#17-03/06 Peninsula Plaza  
111, North Bridge Road  
Singapore 0617

Subject: Draft Audit Report on the Office of the A.I.D./  
Representative for Afghanistan Affairs Controls Over  
Grants and Cooperative Agreements

Dear Jim:

We have completed the review of the subject RIG/A/S draft audit report and are providing our responses on the attachments. Based upon the Mission responses and USAID/Washington directive and guidelines on the subject of Afghanistan Strategy - March 1993 as reported in State 115347, dated April 15, 1993, I believe that all of the recommendations should be considered for closure at the time of final report issuance.

The draft Representation Letter was sent to you on April 29, 1993.

Sincerely

A handwritten signature in black ink, appearing to be 'J. Blackton', is written over the word 'Sincerely'. The signature is stylized and extends across the line.

John S. Blackton  
A.I.D. Representative

Attachment: As stated

AID/REP FOR AFGHANISTAN  
Mission Response to Draft Audit Report on  
Audit of AID/REP For Afghanistan Affairs Controls Over Grants and  
Cooperative Agreements

**EXECUTIVE SUMMARY:** The O/AID/REP's cross border assistance program began when Afghanistan was at war with a Soviet-backed regime in Kabul. Washington responded to the war-time circumstances inside Afghanistan by giving the O/AID/REP three special authorities. First, the Congress authorized A.I.D. to provide assistance to the Afghan people notwithstanding any other provision of law. This legislative provision permitted the O/AID/REP, among other things, to procure goods and services without the need for public advertising. Second, with the ban on official Americans traveling inside Afghanistan, USAID adopted relaxed -- "best efforts" -- monitoring requirements for cross-border activities, which requirements were included in all O/AID/REP grants and cooperative agreements. Third, in order to allow the O/AID/REP to respond to fast changing and emergency assistance needs inside Afghanistan, USAID authorized the O/AID/REP to utilize abbreviated design documentation for its program activities.

The situation inside Afghanistan has changed, and the Asia Bureau is currently examining which, if any, of the special authorities described above should be retained for this program. But the O/AID/REP has not ignored the changed circumstances and has tried in the past year or more to adopt procurement, monitoring and design procedures more closely resembling those of a normal bilateral program. We think we have made important strides, but to the extent this audit identifies areas for further improvement, we welcome the suggestions.

**AUDIT OBJECTIVE:** What happened to the money that the Office of the A.I.D./Representative for Afghanistan Affairs provided for grants and cooperative agreements and did it achieve its intended purpose ?

**RECOMMENDATION NO. 1:** We recommend that O/A.I.D./REP, in coordination with AA/ASIA:

- 1.1 Assess the continued viability of the Afghanistan cross-border program, as currently designed and implemented, and make a determination on the most effective use of the unexpended \$46 million;
- 1.2 Make a determination as to whether the use of the abbreviated project approval methods and waiver of end-use checks, as authorized under the authority of the "notwithstanding" provisions, is still relevant under the current post-war conditions; and
- 1.3 Clearly define project objectives, establish performance indicators and use standard A.I.D. Handbook procedures for all future efforts.

**MISSION RESPONSE:**

1.1 The O/AID/REP presented its new strategy for the Afghanistan Program to the AA/ASIA in March of 1993. (Copy given to Audit Manager in April 1993.) Per State 115347 dated 15 April 93 (Attachment A), the Bureau reviewed the strategy and approved the new program directions. "It was agreed that we are at a point where it is appropriate to close out the existing program as rapidly as possible and make a fundamental shift in program strategy, ..." The O/AID/REP will review its existing pipeline, reprogram funds where possible to meet the revised program objectives in light of expected reductions in future OYBs and FTEs, and deobligate funds as appropriate.

1.2 Per State 115347, paragraph 10, the Asia Bureau is withdrawing all special authorities from the field and will decide, over the next six to twelve months, which authorities are still needed for the program. Nevertheless, we think it is worth noting that the O/AID/REP is currently preparing project design documentation which closely resembles the full Handbook 3 requirements. The Human Resources Development project has all appropriate project documentation, which was given to the auditors with the exception of the papers included as supplementary information. We also believe we have taken important steps to improve end-use checks inside Afghanistan. Notwithstanding the ban on official American travel inside Afghanistan remains in effect, our Data Collection & Analysis Unit (DC&A) and its staff of educated Afghans travels frequently into Afghanistan to confirm the existence of health care centers and schools, and to verify commodity end-use. Contractors and grantees are also required to keep data bases to track end-use.

1.3 The AID/REP has issued a memo (Attachment B) to the O/AID/REP staff to clearly define project objectives, establish performance indicators and use, as much as possible, standard A.I.D. Handbook 13 procedures for all future efforts. The O/AID/REP is currently implementing revised procedures as evidenced by the attached documents explained in more detail in the following recommendation responses.

Performance indicators have been developed since early 1990 and annual Mission reporting cables on Program Performance Indicators (PPI) have been submitted to USAID/Washington since 1990. The Asia Bureau and its predecessors (ANE & ENE) have accepted these periodic PPI reports as being the best available under the circumstances (Copies of PPI reports given to Audit Manager April 1993). Development of and reporting on PPIs have been the responsibilities of the Program Office and the Peshawar-based Data Collection & Analysis Unit over the years.

Based upon Mission response RIG/A/S is requested to close this recommendation.

AUDIT OBJECTIVE: Did the Office of the A.I.D./Representative for Afghanistan Affairs follow A.I.D.'s procedures and regulations for reviewing unsolicited proposals of non-profit organizations and negotiating the subsequent award of the grant or cooperative agreement ?

RECOMMENDATION NO. 2: We recommend that the O/A.I.D./REP require the grants officer to follow A.I.D. Handbook 13 requirements and to review each cost element of an Organization's proposal for reasonableness and allowability, and then document that review in the agreement file.

MISSION RESPONSE:

A review of grants and cooperative agreements and amendments currently in process indicates that the proper procedures for documentation are being followed. The Grant Officer is following Handbook 13 procedures. Nevertheless, in order to close this recommendation, the Grant Officer has been instructed to utilize the Checklist (Attachment C), which includes reviewing each cost element, for future grants and amendments.

Based upon Mission response RIG/A/S is requested to close this recommendation.

**RECOMMENDATION NO. 3:** We recommend that the O/A.I.D./REP take steps to ensure that all Organizations establish performance indicators as required by the respective agreements and by A.I.D. Handbook 13.

**MISSION RESPONSE:**

By requiring all appropriate officers to utilize the Checklist for future grants and amendments, the O/AID/REP will ensure that all future agreements include performance indicators.

Based upon Mission response RIG/A/S is requested to close this recommendation.

**RECOMMENDATION NO. 4:** We recommend that the O/A.I.D./REP take steps to comply with the requirement set forth in A.I.D. Regulation 3 to verify the registration of Organizations for grants and cooperative agreements and then document the results of this verification.

**MISSION RESPONSE:**

The US PVOs to whom the grants were given were registered PVOs as per listing of Handbook (HB) 3 Appendix 4 and updates (cables) provided by USAID/W. When we award to already registered PVOs, the only requirement placed by HB 13 on the grant officer is to document the negotiation memorandum with that information. The officer does not have to obtain their registration documents for the files. It is useful to have the PVO certify that they are registered, when, and by whom. This verification data also should be put in the negotiation memorandum. The Contracts Office maintains a file of the updates to the HB 3 , Appendix 4 list of registered PVOs. File documentation will state that the basic list plus updates has been checked and the PVO is still registered.

Based upon Mission response RIG/A/S is requested to close this recommendation.

**RECOMMENDATION NO. 5:** We recommend that the O/A.I.D./REP:

5.1 Develop and use a checklist of standards contained in A.I.D. Handbook 13; and

5.2 Include the source material supporting the considerations in the file or cross-reference to other information, such as recent financial audits, other reviews, or trip reports.

**MISSION RESPONSE:**

The O/AID/REP has adopted the Checklist (Sample provided by the Audit Manager) for all HB 13 grants. In doing so the source material will be either in the file or cross-referenced to other information available in supporting files.

Based upon Mission response RIG/A/S is requested to close this recommendation.

**AUDIT OBJECTIVE:** Did the Office of the A.I.D./Representative for Afghanistan Affairs obligate, expend, and account for funds, including advances, for grants and cooperative agreements in accordance with A.I.D.'s policies and procedures and applicable laws and regulations ?

**RECOMMENDATION NO. 6:** We recommend that the O/A.I.D./REP:

6.1 Review existing financing arrangements with Organizations to determine if the arrangements are in accordance with A.I.D. Handbook 1 and OMB Circular A-110, then make the changes accordingly; and

6.2 For future agreements, take steps to ensure that OMB Circular A-110 and A.I.D. Handbook requirements are considered and that the determination is documented before selecting the financing method.

**MISSION RESPONSE:**

6.1 The O/AID/REP has reviewed the existing financing arrangements of grants and cooperative agreements and found some are not in accordance with A.I.D. Handbook 1. However, it has been determined that it would not be practicable to change the grants and cooperative agreements to the Letter of Credit (LOC) method of financing as all of the grants/cooperative agreements expire in a

year or less. It would be extremely difficult to stop the current method of financing and to reconcile all the grants and cooperative agreements in an effort to determine what funds would be available for the LOC.

6.2 For all future agreements the O/AID/REP will ensure that OMB Circular A-110 and A.I.D. Handbook requirements are considered and that the determination is documented before selecting the financing method. See Checklist.

Based upon Mission response RIG/A/S is requested to close this recommendation.

**RECOMMENDATION NO. 7:** We recommend that the O/A.I.D./REP take steps to ensure that all cash advances to non-profit organizations which exceed the 30-day period are justified and approved by the O/A.I.D./REP.

**MISSION RESPONSE:**

All the advances that were processed for more than 30 days were reviewed and determined reasonable.

The O/AID/REP issued a Mission Notice dated December 29, 1992 (Attachment D), outlining the policy and procedures on the subject of Advances to Contractors, Grantees and Cooperators by Treasury Check. Advances to non-profit organizations which exceed the 30-day period have been justified and approved by the AID/REP. (Attachment E, sample of justification and approval).

Based upon Mission response RIG/A/S is requested to close this recommendation.

**AUDIT OBJECTIVE:** Did the Office of the A.I.D./Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in establishing and implementing a monitoring, reporting, and evaluation system to ensure that non-profit organizations implement grants or cooperative agreements in accordance with program descriptions and applicable provisions of the agreements ?

**RECOMMENDATION NO. 8:** We recommend that the O/A.I.D./REP take steps to ensure that Organizations report on goals and accomplishments in their quarterly reports, as required by OMB Circular A-110, Handbook 3 and the respective agreements.

MISSION RESPONSE:

Each contractor/grantee operating cross-border activities was required to employ monitors to check and report on activities implemented inside Afghanistan. Excerpts from the monitors' reports are included in the quarterly reports. An example of this is the January 1-March 31, 1993, Third Quarter Report of the International Medical Corps. (Attachment F). The grantees do report separately on special implementation problems such as the possible losses (Page 11 of the Draft Audit Report) as well as include additional actions and current status in their quarterly reports. Note that recoveries of goods valued at \$268,138 of the total possible loss of \$354,588 referred to above have been made. (Attachment G).

All appropriate officers have been instructed to monitor their grantees' reporting in the future. (See AID/REP's memo dated May 4, 1993 per Attachment B).

Based upon Mission response RIG/A/S is requested to close this recommendation.

AUDIT OBJECTIVE: Did the Office of the A.I.D./Representative for Afghanistan Affairs follow A.I.D.'s policies and procedures in the closeout, suspension, or termination of grants or cooperative agreements ?

RECOMMENDATION NO. 9: We recommend that the O/A.I.D./REP take steps to close-out all applicable grants as required by OMB Circular A-110 and A.I.D. procedures.

MISSION RESPONSE:

The O/AID/REP is taking steps to close-out all applicable grants. Under the new strategy statement, the O/AID/REP is working with USAID/W to obtain final overhead and indirect cost rates to complete the closure of the grants and cooperative agreements. A new staff member has been hired in the Contracts Office, whose scope of work is to close out grants, cooperative agreements and contracts. Contract Information Bulletin 90-12 dated June 8, 1990 (Attachment H), Subject: Guidance for AID Missions -- Closing Out Contracts, Grants and Cooperative Agreements is followed when closing out grants and cooperative agreements.

Based upon Mission response RIG/A/S is requested to close this recommendation.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE AID REPRESENTATIVE

American Embassy  
Islamabad, Pakistan  
May 20, 1993

Mr. James B. Durnil  
Regional Inspector General for Audit/Singapore  
U.S. Agency for International Development

Dear Mr. Durnil:

You have asked that the Office of the A.I.D. Representative for Afghanistan Affairs (O/AID/Rep) provide a Representation Letter in connection with your audit of controls over grants and cooperative agreements administered by the O/AID/Rep. Your staff has informed me that the audit covered the Mission's grants and cooperative agreements that were active from the inception of the program (August 1985) through September 30, 1992, which, as of December 31, 1992, accounted for obligations and expenditures of \$144.5 million and \$100.6 million respectively. The audit was made to answer five audit objectives:

What happened to the money and did it do any good?

Did the O/AID/Rep follow A.I.D. policies and procedures in reviewing and authorizing proposals and negotiating grants and cooperative agreements?

Did the O/AID/Rep follow A.I.D. policies and procedures in obligating, expending, and accounting for funds?

Did the O/AID/Rep follow A.I.D. policies and procedures in establishing and implementing a monitoring, reporting, and evaluation system to ensure that recipient organizations implement the grants or cooperative agreements in accordance with program descriptions and applicable provisions of the agreements?

Did the O/AID/Rep follow A.I.D. policies and procedures in the closeout, suspension, or termination of grants or cooperative agreements?

I have been assigned as the A.I.D. Representative for Afghanistan Affairs since January 1993 and accordingly was not personally involved before that time with the implementation of the activities audited. Since my assignment as A.I.D. Representative, my Controller and Grants Officer have briefed me on certain matters pertaining to grants and cooperative agreements covered by the audit, and concurred in writing with the representations which follow. Please note, however, that the Grants Officer for the O/AID/Rep only arrived in August

Representation Letter to  
Mr. James B. Durnil

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1992. I have also been advised that we rely heavily on the accounting system and internal controls under the control of USAID/Pakistan because we are co-located with that Mission. (I took over as Director of USAID/Pakistan in August 1992.) Except as conditioned by the foregoing, I confirm the following representations with respect to those aspects of the audited grant and cooperative agreement activities that were under the full control of this Mission.

1. For the grants and cooperative agreements active during the audit period, the O/AID/Rep was responsible for (a) the internal control system; (b) compliance with applicable U.S. laws and regulations, and terms of grant and cooperative agreements; and (c) the fairness and accuracy of the accounting management information.
2. To the best of my knowledge and belief, the O/AID/Rep has made available all records relating to the activities audited which were requested by your auditors and provided access to all other records.
3. To the best of my knowledge and belief, those records are accurate and complete and give a fair representation as to the status of the activities audited, except to the extent that some records were intentionally destroyed by Embassy security officers during the Gulf War evacuation of this Post in 1991.
4. To the best of my knowledge and belief, the O/AID/Rep has disclosed all known irregularities related to grants and cooperative agreements under audit (that we consider substantive) involving Mission employees with internal control responsibilities or the recipients of such grants or cooperative agreements. For the purposes of this representation, "irregularities" means instances of intentional noncompliance with applicable laws or regulations and/or intentional misstatements, omission, or failures to disclose same.
5. To the best of my knowledge and belief, the O/AID/Rep is not aware of any instance (that we consider substantive) where financial or management information directly relating to this audit have not been properly and accurately recorded and reported, other than the findings in the audit report.
6. To the best of my knowledge and belief, the O/AID/Rep is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) of noncompliance

Representation Letter to  
Mr. James B. Durnil

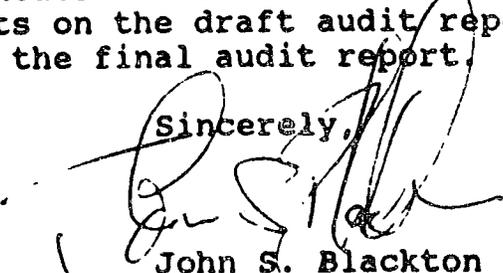
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(that we consider substantive) with A.I.D. policies and procedures or violation of U.S. law or regulation.

7. To the best of my knowledge and belief, the O/AID/Rep is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) of noncompliance (that we consider substantive) by the Mission with the terms of the grants and cooperative agreements relating to the activities audited.
8. After review of your draft audit report and further consultation with my Controller and Grants Officer, to the best of my knowledge and belief, I know of no other facts as of the date of this letter (other than those expressed in the Management Comments to the draft report), that would materially alter the conclusions reached in the draft report.

I request that this Representation Letter be considered part of the official Mission comments on the draft audit report, and be published as an appendix to the final audit report.

Sincerely,



John S. Blackton  
A.I.D. Representative

## APPENDIX III

### REPORT DISTRIBUTION

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