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SINGAPORE

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**AUDIT OF THE
COMMODITY EXPORT PROGRAM
FOR AFGHANISTAN
PROJECT NO. 306-0205
AUDIT REPORT NO. 5-306-90-09
JULY 13, 1990**

Better systems are needed to measure program progress and assure food commodities reach the people of free Afghanistan. Due to severe monitoring restrictions, A.I.D. could only assure that a small percentage of the \$57 million in food commodities issued to the Afghan parties was transported inside Afghanistan and had little verifiable information to substantiate that the commodities actually reached the intended beneficiaries — the people in free Afghanistan.

AGENCY FOR INTERNATIONAL DEVELOPMENT
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July 13, 1990

MEMORANDUM FOR: Larry Crandall
A.I.D./Representative for Afghanistan Affairs
FROM: *F. Whitney Glynn*
F. Whitney Glynn, Acting RIG/A/Singapore
SUBJECT: Audit of the Commodity Export Program for
Afghanistan (Project No. 306-0205)

Enclosed are five copies of our audit report on the Commodity Export Program for Afghanistan.

Your comments to the draft report are summarized after each finding and included in their entirety as Appendix 1 of this report. The report contains six recommended actions. Based on your comments, part (a) and (b) of Recommendation No. 1 are considered closed. The remaining recommendations are resolved and will be closed when appropriate actions are completed. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendations.

I appreciate the cooperation and courtesy extended to the audit staff during the audit.

EXECUTIVE SUMMARY

A major objective of the Commodity Export Program (CEP) to Afghanistan is to ease the burden of the war on those in free Afghanistan as long as the war lasts by providing food commodities to meet urgent food needs of the Afghan people. A PL-480 program has a similar objective — relieving the plight of war-affected Afghans by insuring that food stocks are readily available.

The CEP was approved in August 1986 and is to be completed by August 14, 1991. The total program cost is estimated at \$78.0 million. As of December 31, 1989, A.I.D. obligated and disbursed \$47.9 million and \$42.4 million, respectively. Expenditures included about \$15.3 million for food commodities. A.I.D. had also provided almost \$46.2 million in PL-480 commodities.

The A.I.D./Representative for Afghanistan Affairs (A.I.D./Rep) is responsible for overall implementation and oversight of the CEP and the use of PL-480 commodities. However, the A.I.D./Rep must operate under several constraints not normally associated with A.I.D. programs. For example, there is no formal Afghan counterpart government with which to cooperate and U.S. employees are prohibited from travelling to Afghanistan. We recognize that these and other constraints severely limited the A.I.D./Rep's ability to implement normal monitoring procedures.

The audit disclosed that the CEP procurement services contractor, hired to purchase and store CEP commodities and monitor both CEP and PL-480 commodities, complied with A.I.D. procurement regulations and the contractor had adequate systems for receiving, storing, and paying for commodities (see page 5). However, the audit also disclosed that

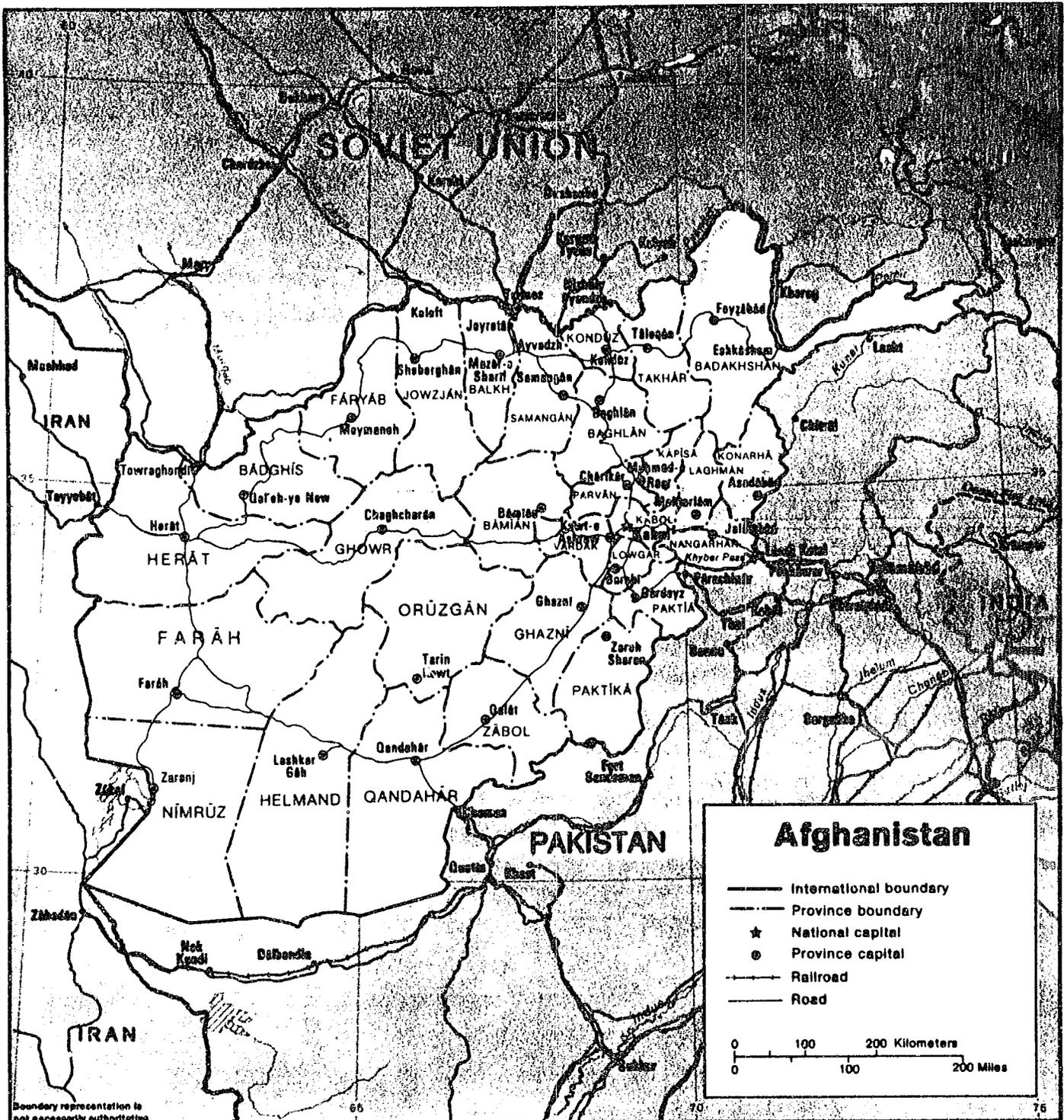
- adequate monitoring systems were not in place to reasonably assure CEP and PL-480 commodities entered Afghanistan and reached the intended beneficiaries (see page 6);
- adequate indicators and reporting systems were not established to measure progress in achieving the major program objective to meet the urgent food needs of the people in free Afghanistan (see page 16);
- a large fertilizer procurement did not meet contract delivery requirements, the undelivered portion of the contract should be cancelled, and the \$1.7 million advanced to the CEP procurement services contractor for the procurement should be refunded (see page 21); and,
- improved controls over cash advances could save the U.S. Government about \$500,000 annually in reduced interest costs or increased interest income to the U.S. Treasury (see page 22).

This report recommends that the A.I.D./Rep takes actions to improve the monitoring of CEP and PL-480 commodities and establish indicators and reporting systems to measure the progress toward meeting the urgent food needs of the people in free Afghanistan. During the course of the audit we issued two Audit Related Memorandums concerning the fertilizer procurement and controls over cash advances and recommended actions to resolve problems related to both issues.

In their comments to a draft of this report, the A.I.D./Rep indicated actions were being taken to improve monitoring of food commodities and to establish indicators and reporting systems to measure the progress in getting commodities to intended beneficiaries. However, the A.I.D./Rep believes that the report does not adequately address the historical context of A.I.D. assistance programs for Afghanistan nor the evolutionary nature of the monitoring systems. The A.I.D./Rep further believes that these omissions distort the readers' view on the management of the programs. As noted in the Other Pertinent Matters of this report, the A.I.D./Rep generally concurred with the findings and recommendations discussed in the Audit Related Memorandums. The A.I.D./Rep's comments to the draft report are summarized after each finding and the full text of their comments is included as Appendix 1.

Office of the Inspector General

Office of the Inspector General
July 13, 1990



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**AUDIT OF THE
COMMODITY EXPORT PROGRAM
FOR AFGHANISTAN**

PROJECT NO. 306-0205

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**AUDIT OF THE
COMMODITY EXPORT PROGRAM
FOR AFGHANISTAN
PROJECT NO. 306-0205**

PART I - INTRODUCTION

A. Background

A major objective of the **Commodity Export Program (CEP) to Afghanistan** is to ease the burden of the war on those in free Afghanistan as long as the war lasts by providing food commodities to meet urgent food needs of the Afghan people. A PL-480 program also provides food commodities in support of this objective. Other CEP objectives include: helping Afghans re-establish themselves quickly in their towns and villages as soon as security permits, and supporting free Afghan authorities and the international donor community's efforts to repatriate the refugees by providing for their basic needs over the short-term and instilling self-sufficiency for the long-term.

A procurement service contractor, hired under the CEP, procures, stores, and pays vendors for most of the CEP commodities. This contractor was also responsible for developing a monitoring system to (1) assure the delivery and use of CEP and PL-480 commodities to the intended beneficiaries and (2) evaluate the impact these commodities have on achieving the CEP objectives. A second CEP contractor provides technical assistance to the Afghan Construction Logistic Unit, an organization staffed entirely by Afghans and based in Peshawar, Pakistan. This unit was equipped by A.I.D. with heavy-duty trucks, pick-ups, and construction equipment. The unit transports foodstuffs and other humanitarian commodities to distribution points inside Afghanistan and carries out basic construction and repairs on war-damaged or neglected roads and bridges.

The A.I.D./Representative for Afghanistan Affairs (A.I.D./Rep) is responsible for overall implementation and oversight of the CEP and the use of PL-480 commodities. However, the A.I.D./Rep must operate under several constraints not normally associated with A.I.D. programs. For example, there is no formal Afghan counterpart government with which to cooperate and U.S. employees are prohibited from travelling to Afghanistan. These constraints limit A.I.D.'s ability to implement normal monitoring procedures.

The CEP was approved in August 1986 and is to be completed by August 14, 1991, at a total cost estimated at \$78.0 million. As of December 31, 1989, A.I.D. obligations and disbursements were \$47.9 million and \$42.4 million, respectively.

A.I.D. Obligations and Expenditures
As of December 31, 1989 (in \$000)

<u>Project Element</u>	<u>Obligations</u>	<u>Expenditures</u>
Logistical Support	\$ 2,186	\$ 1,767
Technical Assistance	7,539	7,489
Program (mostly for commodities)	38,207	33,198
Total	<u>\$ 47,932</u>	<u>\$ 42,394</u>

During the period November 1986 through December 1989, A.I.D. also provided \$46.2 million of PL-480 food commodities.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore conducted an audit of the CEP. Because food commodities are highly vulnerable to fraud, waste, and mismanagement, we focused our detailed audit effort on the CEP's primary objective of providing food assistance to the people of free Afghanistan. This CEP objective includes such activities as procuring, transporting, storing, and monitoring food assistance. Since the PL-480 commodities were issued, transported, and monitored in the same manner as CEP commodities, we included the PL-480 commodities as part of our audit.

Specific audit objectives were to determine whether (1) adequate monitoring systems were implemented to verify that CEP and PL-480 commodities reached the intended beneficiaries (people) of free Afghanistan; (2) the A.I.D./Rep office had established an adequate system to measure progress in achieving the CEP and PL-480 programs' objective for providing food to the people in free Afghanistan; (3) procurements of CEP commodities were done in accordance with applicable procurement regulations; (4) the receipt and storage of CEP commodities were adequate; and (5) payments to vendors for CEP commodities were properly supported. As a result of problems disclosed during our survey, we also determined whether advances provided to selected A.I.D./Rep contractors and grantees complied with appropriate regulations.

The audit was conducted in Pakistan during September through December 1989 at the A.I.D./Rep office in Islamabad and included site visits to Peshawar and Quetta to observe program activities. Program records were reviewed and discussions were held with officials at the A.I.D./Rep office and the CEP procurement services contractor. The audit covered the period from August 1986 through December 1989, with a primary focus on CEP and PL-480 food commodities (for which about \$57 million had been issued to the Afghan parties), and related technical assistance (for which about \$7.5 million was expended).

The first audit objective was to determine the adequacy of the monitoring systems used to verify that CEP and PL-480 commodities reached intended beneficiaries and were not diverted to unauthorized uses. To accomplish this, we reviewed the monitoring system established by the CEP procurement services contractor, interviewed contractor and A.I.D./Rep officials, and interviewed monitors employed by the contractor. We also made a detailed analysis of the contractor's monitoring reports for the period August through October 1989.

The second objective, to determine whether the A.I.D./Rep office established adequate systems to measure progress in meeting the urgent food needs of the people in free Afghanistan, was accomplished by reviewing the CEP and PL-480 authorizing documents to identify the program objectives and what, if any, quantifiable and/or qualitative indicators were established to measure program progress. We also reviewed the May 1988 program evaluation report and the June 1989 evaluation report on the Afghan Humanitarian Relief Project and interviewed A.I.D./Rep officials.

The third audit objective, concerning whether procurements complied with applicable procurement regulations, was accomplished by reviewing a judgmental sample of procurement actions made during the period June 1, 1989 through September 30, 1989. Our sample accounted for 57 percent of the value of the procurement actions awarded during this period. We also separately reviewed a \$1.4 million fertilizer procurement entered into in October 1989, after our sample audit test period, because of problems with the procurement that came to our attention during the audit survey. We did not review local procurements made by the program's first procurement services contractor because records related to these procurements were not available in Pakistan.

To determine the adequacy of the receipt and storage of CEP commodities, the fourth audit objective, we inspected the CEP procurement services contractor's storage locations, reviewed the contractor's inventory system, and conducted appropriate audit tests.

The fifth audit objective, to determine whether payments for CEP commodities were properly supported, was accomplished by reviewing a judgmental sample of the CEP procurement services contractor's vendor payments and their supporting documents. Our sample covered the period June 1 through September 30, 1989, and concentrated on higher dollar value payments, which accounted for 79 percent of the total payments made during this period.

The final audit objective, concerning advances, was accomplished by reviewing advances provided to CEP contractors. Because of problems found with advances, we expanded our review to include advances provided to other A.I.D./Rep contractors and grantees. We reviewed advances provided to the contractors/grantees which accounted for 73 percent of total unliquidated advance balances as of November 30, 1989.

The scope of our audit was limited because we could not travel inside Afghanistan due to security reasons. We, therefore, could not verify whether the commodities actually entered Afghanistan and reached the intended beneficiaries, nor could we verify the accuracy of available monitoring information. Except for these areas, our audit was made in accordance with generally accepted government auditing standards. The reviews of compliance and internal controls were limited to the issues raised in this report.

PART II - RESULTS OF AUDIT

The A.I.D./Representative for Afghanistan Affairs (A.I.D./Rep) needs better systems to (1) verify that A.I.D.-funded commodities entered Afghanistan and reached intended recipients and (2) measure progress in meeting the urgent food needs of people in free Afghanistan.

A procurement services contractor was responsible for the procurement of most Commodity Export Program (CEP) commodities. The procurements we tested complied with A.I.D. regulations. However, due to the political sensitivity involved with local procurements, the A.I.D./Rep did not allow the contractor to formally advertise its procurements in Pakistan. The contractor had adequate systems for receiving, storing, and paying for the commodities.

Although the A.I.D./Rep office is responsible for overall implementation and oversight of the CEP and the use of PL-480 commodities, the office faces constraints not normally associated with A.I.D. programs. For example, there is no formal Afghan counterpart government with which to cooperate and U.S. employees are prohibited from travelling to Afghanistan. We recognize that these and other constraints severely limited the A.I.D./Rep's ability to implement normal monitoring procedures.

This report includes two findings. One is that there is little verification that food commodities entered Afghanistan and reached intended beneficiaries. The second is the need to establish quantifiable and/or qualitative indicators and reporting systems to measure progress in meeting the urgent food needs of the people in free Afghanistan. This report recommends actions to improve controls in these areas.

In addition to the above two findings, the Other Pertinent Matters section of this report discusses additional findings, two of which were reported in Audit Related Memorandums during the course of the audit. These two findings concerned problems with a large fertilizer procurement and excessive or unauthorized cash advances provided to contractors and grantees. As a result of these findings, the A.I.D./Rep took actions which resulted in a recovery of \$1.7 million related to the fertilizer procurement and in savings to the U.S. Government (reduced interest costs or increased interest income to the U.S. Treasury) of \$500,000 annually because of better controls over cash advances.

A. Findings and Recommendations

1. Effectiveness of End Use Monitoring

Monitoring of food commodities intended for the use of the people in free Afghanistan needs substantial improvement. Basic problems hindering the current monitoring effort include restrictions imposed by the Government of Pakistan and the Afghan parties and the continued war-time conditions inside Afghanistan. In addition to these problems, the current monitoring system had other shortcomings; one of which was that available monitoring data on the distribution of the commodities was not being summarized and analyzed. As a result of these problems, A.I.D. could only assure that a small percentage of the \$57 million in food commodities issued to the Afghan parties under the Commodity Export and PL-480 Programs was transported inside Afghanistan and had little verifiable information on whether the commodities actually reached the intended beneficiaries — the people in free Afghanistan.

Recommendation No. 1:

We recommend the A.I.D./Representative for Afghanistan Affairs:

- a. ensures the monitoring restrictions imposed by the Government of Pakistan and the Afghan parties are adequately resolved;
- b. develops a monitoring system which can provide reasonable assurance that Commodity Export Program and PL-480 commodities get inside Afghanistan, reach intended beneficiaries, and are not diverted to unauthorized uses (e.g., the system should increase direct observation of commodity distribution inside Afghanistan and find ways to follow up or test distribution systems being used to determine if the systems are working as intended and commodities are reaching intended beneficiaries); and
- c. in coordination with the Commodity Export Program procurement services contractor, develops a list of key monitoring information needs that should be reported on a periodic basis.

Discussion

The Commodity Export Program (CEP) and the PL-480 program were implemented to respond to the lack of basic humanitarian goods which aggravates living conditions in free Afghanistan. The programs' basic objective is to provide commodity assistance to meet urgent food needs of Afghans. As of December 31, 1989, about \$57 million in CEP and PL-480 food commodities (see Exhibit 1) were issued to the Afghan parties to meet these needs.

In an effort to meet various A.I.D. regulations that require monitoring systems to verify that project commodities are effectively used, the A.I.D./Representative for

Afghanistan Affairs (A.I.D./Rep) tasked the CEP procurement services contractor to verify delivery and evaluate the impact of CEP and PL-480 commodities. To accomplish this, the contractor began using Afghan employees in April 1988 to track commodities intended for Afghanistan. The contractor is also responsible for determining if commodities are diverted into local markets.

Although the A.I.D./Rep office has taken a number of actions to strengthen the contractor's monitoring programs and its own oversight of those programs — much remains to be done if there is to be adequate assurance that commodities are even being transported into Afghanistan.

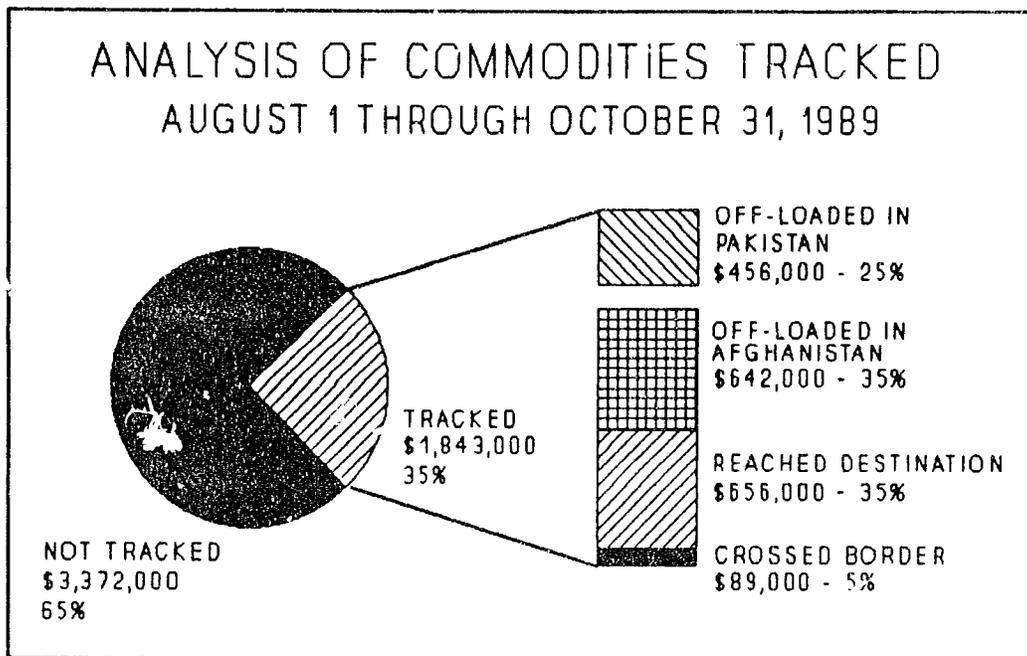
The extent of commodity verification and related monitoring problems are discussed below.

Verification That Commodities Entered Afghanistan - Verification that the \$57 million in food commodities issued for the free people of Afghanistan under the CEP and PL-480 program actually entered Afghanistan is severely limited, due mainly to monitoring restrictions imposed by the Government of Pakistan and the Afghan parties. Furthermore, those attempts that were made to verify that commodities reached intended distribution points in Afghanistan (i.e., the district where commodities were to be off-loaded after convoys entered Afghanistan) were often unsuccessful due to convoys off-loading commodities prior to reaching intended distribution points.

Despite almost two years of monitoring efforts generating hundreds of monitoring reports, data were not readily available to identify how much of the commodities were actually verified as entering Afghanistan and reaching the intended distribution points inside Afghanistan. Monitoring information was not summarized or analyzed at the time of our audit. Because of the lack of summary information, we analyzed the 65 monitoring reports for a three-month period (August through October 1989) to determine if commodities entered Afghanistan and reached the intended distribution points inside Afghanistan. This was the latest three-month period for which reports were available at the time of our audit field work.

Our analysis, illustrated below, shows that the A.I.D./Rep did not have adequate verification that \$3.8 million (\$3,372,000 not tracked plus the \$456,000 off-loaded in Pakistan) — or about 73 percent — of the \$5.2 million of the commodities issued during this three-month period was actually transported inside Afghanistan. Of the amount which reportedly entered Afghanistan (\$1.4 million), there was verification that only about \$656,000 — about 13 percent of the commodities issued — actually reached the intended distribution points in Afghanistan. The remaining commodities (\$731,000) which reportedly entered Afghanistan were either off-loaded in route to the intended distribution points or were only observed crossing the border into Afghanistan, with no additional monitoring. The commodities off-loaded at intermediate points in route were reported to be placed under the custody of party commanders at that particular location. Both the illustration below and Exhibit 2 provide an analysis of the value of commodities issued and monitored for the three-

month period.



As shown in the above illustration, of the \$1.8 million in commodities tracked, \$456,000 were off-loaded from the convoys in Pakistan and \$642,000 were off-loaded in Afghanistan but prior to reaching the intended initial distribution point. The reasons given for off-loading in Pakistan included infighting among parties (41 percent), no fuel and/or funds (19 percent), party escort did not show up or there were no orders for convoy to go on into Afghanistan (18 percent), and steep roads (8 percent). Reasons given for the convoys being off-loaded once inside Afghanistan included lack of adequate roads (31 percent), enemy-controlled roads (27 percent), and roads too steep for trucks (21 percent). Exhibit 3 provides an analysis of the reasons given for off-loading commodities.

In March 1987, the A.I.D./Rep recognizing the need for improved end-use monitoring of CEP commodities issued a "Preliminary Data Collection, Monitoring and Evaluation Plan." The plan stated that the procurement services contractor would (1) ensure that all procurement, delivery and end-use records are kept up to date; (2) regularly collect data provided by Afghan commanders on the receipt and end-use of commodities; (3) supervise the direct monitoring of end-use; (4) periodically collect data concerning end-use of commodities from individuals returning from Afghanistan; (5) computerizing the data obtained; and (6) regularly analyze the data to identify problem areas and feed it into the on-going management planning and redesign process. At the time of our audit, most of the above activities had not been undertaken. According to A.I.D./Rep officials, some of these activities, such as collecting data from Afghan commanders, could not be implemented due to continued war time conditions inside Afghanistan.

Actual Distribution Rarely Observed - There is little assurance that CEP and PL-480 commodities actually reached the intended beneficiaries (the people of free Afghanistan) and were not diverted for unauthorized uses.

The only "monitoring" of commodity distribution inside Afghanistan was done by the CEP procurement services contractor's Afghan employees under two arrangements. One arrangement was for the employees accompanying a convoy to observe distribution when the convoy reaches its intended distribution points inside Afghanistan. Because monitors usually returned to Peshawar with the convoy before any distribution took place, they rarely observed the actual distribution of commodities either after commodities were off-loaded in route or after arriving at intended distribution points inside Afghanistan.

As an illustration of the monitors' infrequent observations of commodity distribution, under this first arrangement only 4 of the 65 monitoring reports prepared for the three-month period, August through October 1989, noted any observations of commodities being distributed. And, in these few instances, only small amounts were reported as distributed. Furthermore, the monitors may not have observed actual distribution procedures but staged events: when they arrived at the convoy destination, the monitors requested that some commodities be distributed.

The second arrangement is for the employees to conduct "independent surveys" at specific locations inside Afghanistan where commodities were supposed to have been sent. These surveys were scheduled to last about three weeks. At these locations the monitors interview villagers and Afghan commanders to try to find out what happened to the commodities. Eight of these surveys were performed since April 1988; but they provided only limited evidence that commodities reached the people of free Afghanistan because:

- Although the monitors visited areas where CEP and PL-480 commodities were sent, the monitors had little information on the delivery schedules and the amount of commodities that should have arrived at the locations visited. The monitors, therefore, had no basis for determining whether or not CEP and PL-480 commodities intended for these destinations actually arrived.
- Much of the information collected by these monitors was anecdotal. For example, the monitors attempted to find out whether or not the villages they visited were getting their share of the commodities and what problems the people they visited may have with the program. The reports we reviewed generally indicated the villages visited wanted more commodities, which is to be expected. Although there were complaints from villages about not getting their share of commodities, the monitors could not confirm these complaints since they had no information on the quantities allocated to these villages or actually sent. Monitors also reported on commodity supplies they observed at locations visited. Again, however, the monitors did not know what was sent to these locations or when the commodities should have arrived.

Scope of Monitoring Was Restricted - The A.I.D./Rep's ability to effectively monitor commodities provided under the CEP and PL-480 program was hindered by the severe restrictions imposed by the U.S. Government, the Government of Pakistan, and the Afghan parties. These restrictions precluded the A.I.D./Rep from implementing normal A.I.D. requirements necessary for an effective monitoring system for commodities. For example, the U.S. Government policy restricting American personnel from entering Afghanistan limits A.I.D. from applying somewhat more conventional monitoring techniques. A.I.D., therefore, relied upon Afghans hired by the CEP procurement services contractor for monitoring commodities inside Afghanistan. Other restrictions included:

- The CEP contractor was not allowed by the Government of Pakistan and Afghan parties to send its monitors inside Afghanistan from its Quetta location. About 30 percent of the PL-480 and CEP commodities were intended for shipment into Afghanistan from this location. This restriction effectively precluded monitoring to assure the commodities, costing about \$17 million, were used or even off-loaded in Afghanistan. The most "monitoring" that could be done at Quetta was for monitors to observe some convoys — seven convoys carrying about \$107,000 in commodities — crossing the border into Afghanistan and this was only allowed starting in July 1989.
- At Peshawar, where about 70 percent of the PL-480 and CEP commodities were handled, the commodities were issued to the Afghan parties for either transportation directly into Afghanistan or to their warehouses located in border areas in Pakistan, intended for later shipment inside Afghanistan. Although contractor monitors were allowed to accompany convoys transporting commodities directly from Peshawar to destinations inside Afghanistan, the Afghan parties prohibited monitors from accompanying convoys that left from their border warehouses. Our review of commodity issues from August through October 1989 showed that 58 percent of the commodities issued from Peshawar were first transported to the parties' border warehouses. Thus, this restriction effectively precluded monitoring commodities costing about \$2.6 million during this period. We were unable to determine the total amount of commodities issued from party warehouses and not monitored since the project's inception.

During 1989, the A.I.D./Rep took a number of actions in an effort to remove restrictions adversely affecting its monitoring efforts. For example:

- The A.I.D./Rep suspended commodity issues from Quetta in June 1989 because the Afghan parties would not allow the CEP contractor's monitors to accompany any commodity issues beyond the contractor's warehouse. Although A.I.D. was able to reach agreement in July 1989 with Government of Pakistan and Afghan officials to allow monitors to accompany issues to party warehouses and border areas in Pakistan, no agreement was reached to allow the monitors inside Afghanistan or to make surprise visits to party warehouses inside Pakistan to verify commodity inventories and records.

- In September 1989, the A.I.D./Rep amended its PL-480 agreement with the Government of Pakistan for emergency food relief for war-affected Afghans in an effort to, among other things, improve monitoring of commodities from both Quetta and Peshawar. The new agreement stipulated that (1) the CEP contractor's monitors would accompany food/commodity shipments to Pakistan border locations and inside Afghanistan, (2) at the contractor's discretion Afghan monitors would make two or three trips per week inside Afghanistan, (3) the monitors would obtain basic delivery information for each convoy on commodity type, amount, destination, transporter and recipient, and (4) if commodities were off-loaded at intermediate warehouses, contractor monitors could return at a later date to obtain information about the commodities ultimate destination and use of the commodities.

Despite A.I.D.'s efforts, however, all restrictions had not yet been removed at the conclusion of our audit in December 1989. For example, the Afghan parties continued to prohibit the CEP procurement services contractor's Afghan monitors from accompanying convoys from Quetta inside Afghanistan. Because of these monitoring restrictions and other problems, the U.S. Ambassador in early December 1989 suspended all commodity issues and advised the appropriate Government of Pakistan and Afghan officials that the suspension would not be lifted until monitoring and other problems were resolved.

Detections of Diversion of Commodities - At both Peshawar and Quetta, the CEP procurement services contractor conducts market surveys around the cities and border areas where commodities are sent inside Afghanistan in an attempt to identify commodities (CEP and PL-480 food commodities) that might be diverted to the markets. During the three-month period, October through December 1989, the contractor's monitors made more than 330 visits to markets. The results of these types of surveys have been used to conclude little of the CEP and PL-480 commodities are being diverted to local markets. For example, the June 1989 evaluation report on the Afghanistan Humanitarian Relief Project cited the lack of any evidence of significant commodity diversions based on the CEP contractor's monitoring report. These commodities, however, are not readily identifiable since most commodities are procured locally and there are no distinguishing marks to identify them as being provided by the U.S. Government. We, therefore, do not believe it is possible to conclude based on these surveys that commodities are not being diverted.

Conclusion

The CEP is being implemented in a high risk environment and, as such, is highly vulnerable to fraud, waste, and mismanagement. Program commodities are being sent into a country still operating under wartime conditions. Many of the commodities are in short supply in Pakistan, and are thus subject to possible diversion. The ability to detect diversions is limited by the fact that the commodities are not distinguishable and thus cannot be readily identified as being provided by the U.S. Government. Moreover, attempts to monitor the use of U.S. assistance are

further severely restricted: U.S. employees are currently not allowed to travel inside Afghanistan, and the Government of Pakistan and the Afghan parties will not always let monitors inside Afghanistan.

Although A.I.D. has taken actions to remove certain monitoring restrictions, these efforts have not been completely successful and the existing monitoring system needs improvements to assure commodities enter Afghanistan and reach intended beneficiaries. Efforts must be undertaken to (1) ensure the monitoring restrictions imposed by the Government of Pakistan and the Afghan parties are adequately resolved; (2) improve the summary and analytical information available on the results of monitoring; and (3) substantially increase the direct observations of the use and disposition of commodities inside Afghanistan. Until these actions are taken, A.I.D. cannot assure commodities provided in the future will reach intended beneficiaries inside Afghanistan, will not be diverted to unauthorized uses, or will not go to enemy-controlled areas of Afghanistan or other countries.

Management Comments

Although A.I.D./Rep officials were taking a number of actions to implement the report recommendations, they believe that the report does not adequately address the historical context of A.I.D.'s assistance programs for Afghanistan nor the evolutionary nature of its monitoring system. The A.I.D./Rep officials further believe that these omissions distort the readers' view on the management of the program.

With respect to part (a) of Recommendation No. 1, the A.I.D./Rep stated that in regard to commodity issues from Peshawar, a monitoring agreement was reached with the Afghan Interim Government in March 1990 and A.I.D./Washington concurred that this agreement would allow adequate monitoring. In Quetta, commodity issues which were suspended in June 1989 were resumed in May 1990 after the Afghan Interim Government agreed to allow monitors inside Afghanistan. Because of past difficulties experienced in Quetta over monitoring issues, the A.I.D./Rep directed that there would not be a second convoy to transport food until the monitors from the first convoy return and report on the distribution of the food commodities to the ultimate recipients.

With respect to part (b) of Recommendation No. 1, the A.I.D./Rep stated the CEP procurement services contractor recently strengthened its monitoring capabilities and attached a memorandum describing the new monitoring system.

With respect to part (c) of Recommendation No. 1, the A.I.D./Rep stated that for some time they have been supporting the idea of creating a computerized database and software configuration which would permit the aggregation and analysis of data derived from individual monitoring and accounting reports and that this system is now coming on line. The A.I.D./Rep stated they will review reports generated from this system with a view toward testing the utility of the reports as management tools.

Notwithstanding the steps taken to implement the recommended actions, the A.I.D./Rep disagrees with our statement that "... adequate monitoring systems were not in place to reasonably assure that CEP and PL-480 commodities entered Afghanistan and reached the intended beneficiaries ...". It is the A.I.D./Rep's view that during the initial years of this program, simply getting food across the border was, ipso facto, getting it to intended beneficiaries and that the Congress and the Administration agreed.

The A.I.D./Rep pointed out that before the initiation of cross-border commodity movements in 1986, it was clear to all concerned that access for the purposes of monitoring would be severely constrained but it was the U.S. Government's policy that the program should go forward in spite of the constraints. It was expected that only gradually would access be increased. The A.I.D./Rep maintains that there has been constant attention to the issue of monitoring and continuing improvements in their ability to monitor. The A.I.D./Rep further stated that while in need of many improvements, "... the monitoring system used in Peshawar just prior to the suspension of food distribution in December 1989 was adequate in assuring that there was no diversion of food."

It was also the A.I.D./Rep's view that our analyses of monitoring reports, which show that 27 percent of the commodities was tracked into Afghanistan, support their belief that monitoring was, in fact, adequate. They noted that a food team, composed of experts on food programs from within and outside A.I.D., reported that although the monitoring system as of November 1989 falls short of monitoring/accountability rigor expected of most emergency feeding programs, the contractor's monitoring system using Afghan staff had begun to generate details on distributions which surpass those achieved in other emergency programs in war zones. Further, the A.I.D./Rep cited the team's opinion that tracking 25-30 percent of randomly chosen food shipments would represent an appropriate sample as confirming their judgement that the level of monitoring as conducted in Peshawar in November 1989 was adequate.

The A.I.D./Rep considers our analysis of reasons for off-loading contained in Exhibit 3 to be fallacious and the aggregation of reasons given by the monitors for off-loading of little practical use to anyone since they had little or no way of affecting any change in the problems described.

The A.I.D./Rep also believes this report is flawed by the failure to differentiate between the monitoring of food deliveries and the allocation process associated with the deliveries. He noted, for example, that from 1986 through mid-1989, they were precluded from participation in the allocation process in any meaningful way. According to the A.I.D./Rep, this lack of participation in the allocation system was recognized by policy-makers at all levels, and it was accepted that the humanitarian purposes of the program would be acceptably served "... if food was delivered across the border to a population that was considered to be generally in need." The A.I.D./Rep noted, however, that with recent events and changes in Afghan leadership and responsibilities within the Government of Pakistan, the A.I.D./Rep is now

participating in allocation decisions.

Office of Inspector General Comments

Based on the A.I.D./Rep's response to our recommendations, parts (a) and (b) are considered closed. Part (c) is considered resolved and will be considered for closing when we are provided copies of reports generated by the CEP contractor.

We agree that our report does not go into detail on the historical context of A.I.D.'s assistance programs for Afghanistan nor the evolutionary nature of the monitoring efforts connected with these programs. However, this report does point out that the A.I.D./Rep must operate under several constraints not normally associated with A.I.D. programs and that these constraints limit the A.I.D./Rep's ability to implement normal monitoring procedures. This report also identifies examples of actions taken by the A.I.D./Rep to remove the restrictions (as discussed on pages 10 and 11).

We do not agree with the A.I.D./Rep's contention that the monitoring system used in Peshawar in November 1989 was adequate in assuring that there was no diversion of food. This report points out serious deficiencies with that system -- deficiencies which included the limited observations or verification of the actual distribution of commodities to the recipients inside Afghanistan and the difficulties of detecting diversions of food commodities since the commodities were not readily identifiable. We continue to believe that the monitoring system in place at the time of our audit provided little assurance that the vast majority of CEP and PL-480 commodities actually entered Afghanistan, reached the intended beneficiaries (the people of free Afghanistan), and were not diverted for unauthorized use.

We do not agree with the A.I.D./Rep's view that our analysis showing that 27 percent of the commodities was tracked inside Afghanistan supports their belief that monitoring was adequate. Although 27 percent was tracked as far as entering Afghanistan, this report notes that only 13 percent of the commodities issued was tracked to the intended distribution points in Afghanistan. The report also notes that in very few instances did monitors actually observe the actual distribution of commodities to intended recipients inside Afghanistan.

We do not understand the A.I.D./Rep's view that our analyses of reasons for off-loading are of little practical value. We believe that if only a small percentage of commodities can be verified as reaching intended destinations inside Afghanistan, the reasons for not reaching these destinations should be known and, to the extent possible, actions should be taken to assure that recurrent problems are addressed and corrected. For example, when reports reveal certain areas are causing truck transport problems, the A.I.D./Rep could perhaps intervene to assure only trucks that can travel these routes are sent with commodities or task its other CEP contractor to send construction units to make the area passable. Also, such problems as lack of funds or fuel identified in monitoring reports would appear to be correctable.

We also do not understand the basis for the A.I.D./Rep's view that this report is flawed by the failure to differentiate between the monitoring of food deliveries and the allocation process associated with the delivery. This report identifies (in the second finding on page 18) that A.I.D./Rep officials were not involved in the allocation process and this hindered their ability to determine whether the CEP is achieving the objective to respond to urgent food needs in Afghanistan. This report further notes that partly for this reason, the A.I.D./Rep suspended all issues of CEP and PL-480 commodities in December 1989 until the office was allowed more involvement in the planning and allocation process.

2. Indicators and Reporting Systems to Measure Program Achievements

Program progress could not be measured because adequate quantifiable and/or qualitative indicators and reporting systems were not established as required by the Foreign Assistance Act and A.I.D. regulations. Better indicators and improved reporting are needed to effectively monitor and measure progress in meeting urgent food needs of the people in free Afghanistan — for which about \$15.3 million in Commodity Export Program food commodities, \$46.2 million in PL-480 commodities, and \$7.5 million in related technical assistance have already been spent (as of December 31, 1989).

Recommendation No 2:

We recommend the A.I.D./Representative for Afghanistan Affairs develops and implements:

- a) quantifiable and/or qualitative indicators to measure progress toward meeting the urgent food needs of the people in free Afghanistan; *5/6 n/c*
- b) a management system for reporting on the progress in achieving each established indicator; and *4/4 n/c*
- c) a formal policy and procedures for determining the types and quantities of Commodity Export Program and PL-480 commodities and for assuring appropriate allocations of the commodities. *4/c n/c*

Discussion

The Foreign Assistance Act requires A.I.D. to establish a management system that includes (1) the definition of program objectives, (2) the development of quantifiable indicators to measure progress towards these objectives, and (3) the adoption of methods for comparing actual versus anticipated results. In addition, A.I.D. Handbook 3 requires a reporting system which keeps all parties advised of the current status of project activities.

The Commodity Export Program (CEP) for Afghanistan is now entering its fourth year. In addition to providing over \$7 million in technical assistance, about \$61 million of CEP and PL-480 food commodities (as shown in Exhibit 1) have been provided to meet the urgent food needs of the people in free Afghanistan. Although there is a general consensus that this assistance contributed significantly to alleviating many problems faced by Afghans, there is no hard evidence available to identify or quantify the direct beneficiaries of the humanitarian goods provided or the progress in achieving this program objective. A major reason for this is that quantifiable and/or qualitative indicators and reporting systems to objectively measure program achievements were never established.

The August 1986 authorizing document for the CEP stated that the immediate and

primary program objective was to "... substantially increase and expedite the provisions of humanitarian commodities to the general population in free Afghanistan ...". A June 1988 program amendment further emphasized the need to ease the burden of the war on those in free Afghanistan as long as the war lasts by providing humanitarian commodity assistance to meet urgent food needs of Afghans.

However, neither the original program authorization document nor other documents provide quantifiable and/or qualitative indicators to measure progress in achieving this program objective. For example, indicators were not established to determine and measure such things as the quantity and types of food to be provided (e.g., what were the benefits achieved by providing about \$2.7 million of food commodity resources for tea and sugar) and the number of Afghans to benefit from the program. Also a reporting system was not established to track progress toward meeting established indicators.

In March 1987, the A.I.D./Representative for Afghanistan Affairs (A.I.D./Rep) issued a comprehensive "Data Collection, Monitoring and Evaluation Plan". The plan prescribed guidance for monitoring program achievements and as part of the introduction stated the following:

"A.I.D. will be called upon increasingly in the months ahead to demonstrate the effectiveness of the Program for War Affected Afghans. Senior leadership in the U.S. Department of State and A.I.D. as well as Congress and the American people, can be expected to ask hard questions about the achievement of our humanitarian objectives and the extent to which U.S. assistance is actually benefitting the Afghan people. In view of this, it is imperative that we gather solid evidence on the Commodity Export project's strengths and weaknesses."

The plan included several questions which were to be periodically reviewed and answered. One question was: "To what extent are we responding to the actual humanitarian needs of the general Afghan population?"

To answer this question, the Monitoring Plan identified eight indicators including demonstrated use of commodities, approximate numbers of Afghans receiving commodities, provinces in Afghanistan where each commodity type is delivered, number of households provided food and number of weeks the food supply should last, and an estimate of households reached in the target area as percent of total households. The plan also set forth that the "data collection method and analysis" should include the requirement that Afghan commanders provide data indicating receipt of the commodities, the use and the adequacy of the commodities received, and households served by the commodities. The plan further stipulated that, when possible, the data provided by the commanders will be supplemented by data obtained through observations made by the project's procurement services contractor monitors and informal interviews held with other individuals returning from Afghanistan.

A May 1988 program evaluation report stated that no reports had been prepared which respond specifically to the March 1987 Monitoring Plan. The report recommended that the A.I.D./Rep instruct the CEP procurement services contractor to respond to the questions in the Monitoring Plan or indicate how the contractor intends to respond to them.

A.I.D./Rep officials said the 1987 Monitoring Plan was not implemented because it was viewed as an "ideal" or something they should strive for. They pointed out, however, that their inability to collect objectively verifiable data on what is happening inside Afghanistan has made it impossible to implement the plan. To illustrate, they noted the plan called for obtaining considerable data from Afghan commanders on the receipt and disposition of commodities. They explained that commanders considered such information very sensitive and would not want to provide it to A.I.D.

A.I.D./Rep officials acknowledged that quantitative indicators and effective reporting systems were not established to measure progress in achieving the program's objectives. They said that when the CEP was started, the thrust was to get food across the border into Afghanistan. It was assumed that everyone inside Afghanistan was needy. The officials stated the CEP is still operating under the same imperatives that existed when the program started back in 1986, i.e., get the food inside Afghanistan. They acknowledged, however, that A.I.D./Washington officials are now pushing for more answers in terms of what is happening to the food provided and what is the justification for the amount of food and other commodities being provided.

Besides not establishing indicators to measure program progress, another problem hindering the A.I.D./Rep's ability to determine whether the CEP is achieving its stated objective to respond to urgent food needs in Afghanistan is the fact that the A.I.D./Rep was not involved in planning CEP and PL-480 commodity movements to Afghanistan. These decisions were made by the Government of Pakistan and the Afghan parties. Thus, the A.I.D./Rep had little flexibility to direct commodity movements to assure achievement of project objectives. Partly for this reason and restriction on monitoring activities discussed in the previous finding, the A.I.D./Rep suspended all issues of CEP and PL-480 commodities in December 1989 until it was allowed more involvement in the planning and allocation process.

Conclusion

We recognize that the extraordinary circumstances under which the CEP and PL-480 program were conceptualized and implemented may have precluded establishing indicators with which to measure program achievements. However, after more than three years of implementation and expenditures of over \$68 million for food commodities and related technical assistance, the A.I.D./Rep needs to develop: (1) quantifiable and/or qualitative indicators to objectively measure progress in meeting the urgent food needs of the people in free Afghanistan and (2) a management information system to gather and report data for measuring progress. Also, there

should be a formal policy and procedures for determining the types and qualities of CEP and PL-480 commodities and for assuring appropriate allocations of the commodities.

Management Comments

The A.I.D./Rep indicated that a number of actions have been taken since our audit cut-off date (December 31, 1989) to address the issues discussed in this finding.

With respect to part (a) of Recommendation No. 2, the A.I.D./Rep stated that the fiscal year 1990 food proposal approved by A.I.D./Washington included a food grains assessment on a macro basis which demonstrated the need for continued imports of PL-480 and other food grains. According to the A.I.D./Rep, this proposal also described the Afghan Interim Government's food allocation plans, and the analytic tools (such as an improved demographic profile of Afghanistan and Afghan refugees) the A.I.D./Rep's office is developing to assess these plans during the approval process.

With respect to part (b) of Recommendation No. 2, the A.I.D./Rep noted the CEP procurement services contractor has improved its reporting system to include individual monitoring reports, weekly summary highlights, and more detailed and analytical reports. The A.I.D./Rep also noted that they will submit a quarterly analytical report to A.I.D./Washington describing both accomplishments and progress in the on-going process of improving the quality of their food targeting and monitoring.

With respect to part (c) of Recommendation No. 2, the A.I.D./Rep stated that their approved fiscal year 1990 PL-480 proposal details the procedures to be used in allocating and monitoring PL-480 wheat and that they have determined that no further procurement of CEP food commodities should be planned.

Office of Inspector General Comments

Based on the A.I.D./Rep's comments, Recommendation No. 2 is resolved. Parts (a) and (c) will be considered for closing once we are provided a copy of the fiscal year 1990 PL-480 proposal. Part (b) will be considered for closing once we are provided copies of reports generated by the CEP procurement services contractor and the quarterly analytical report submitted to A.I.D./Washington.

B. Compliance and Internal Controls

Compliance

Finding No. 2 identifies that the A.I.D./Rep did not comply with the Foreign Assistance Act and A.I.D. requirements to establish indicators and reporting systems to measure program progress. The audit also disclosed that cash advances provided under the Afghanistan Assistance Program did not comply with applicable regulations for depositing advances in interest bearing accounts, limiting advances to contractors/grantees' immediate cash needs, and providing cash advances to profit-making organization (see Other Pertinent Matters). The audit review of compliance was limited to the findings presented in this report.

Internal Controls

Finding No. 1 identifies the need to improve the effectiveness of end-use monitoring to better assure commodities reach intended beneficiaries. Finding No. 2 identifies the need for indicators and reporting systems to better measure project progress. The audit also disclosed controls needed to be improved over cash advances (see Other Pertinent Matters). The audit review of internal controls was limited to the findings presented in this report.

C. Other Pertinent Matters

During our audit we issued two Audit Related Memorandums (ARMs) on problems that came to our attention that we believed were of such a magnitude that the A.I.D./Representative for Afghanistan Affairs needed to be informed prior to the completion of our audit. These problems, concerning a fertilizer procurement and cash advances, along with two other issues are discussed below:

1. Procurement of Fertilizer

We issued our first ARM (5-ARM-90-001) on November 24, 1989 dealing with a \$1.4 million procurement of fertilizer for Afghanistan. We initially concluded the procurement did not comply with the terms of the source/origin and sole-source procurement waivers. A further review by the Inspector General Legal Counsel (IG/LC) Office concluded that although the procurement failed to meet the delivery requirement set out in the contract, it did not violate procurement regulations.

Fertilizer is a restricted commodity and A.I.D. regulations require procurements to be competitive and from U.S. sources, unless the requirements are waived. The A.I.D./Rep office was granted a source/origin waiver in June 1989 to purchase the fertilizer from the Government of Pakistan. The waiver was granted based on the urgent need for fertilizer in Afghanistan by late July or early August and the understanding the fertilizer was available from products currently warehoused in Pakistan. A waiver of full and open competition to authorize procurement of fertilizer directly from the Government of Pakistan was also approved in June 1989 for the same reasons.

Problems were encountered, however, during the procurement process and the A.I.D./Rep office was unable to obtain the fertilizer by mid-July or early August. For example, the A.I.D./Rep office did not obtain funding authorization and the authority to conclude a procurement agreement with the Government of Pakistan officials until mid-July. Agreement was not reached with the Government until early August. Finally, when A.I.D. officials inspected some Government of Pakistan fertilizer supplies in mid-August, the fertilizer was found to be from ineligible sources and could not be bought by A.I.D. This delayed the procurement into October and resulted in A.I.D. buying fertilizer imported by the Government of Pakistan, not fertilizer warehoused in the country.

We recommended that since A.I.D. had not procured all the fertilizer intended, the remaining procurement be cancelled and the A.I.D./Representative consider selling back to the Government of Pakistan fertilizer currently in storage and not needed for immediate needs.

In responding to our ARM, the A.I.D./Representative stated that while they agreed in principle with our recommendations they also believed that various circumstances existed, which justified implementation steps taken with regard to the fertilizer procurement. Although the A.I.D./Representative believed it was both politically

unwise and counter to A.I.D.'s interests in boosting Afghan food production to sell back remaining fertilizer stocks to the Government of Pakistan, the A.I.D./Rep did cancel the remaining fertilizer procurement and directed the procurement services contractor to refund to A.I.D. funds advanced for this procurement, advances amounting to \$1.7 million.

2. Cash Advances Provided Under the Afghanistan Assistance Program

Our second ARM (5-ARM-90-002) was issued on January 25, 1990 and reported on three major problems areas: (1) advances were not being deposited in interest-bearing accounts as required; (2) advances made to profit-making contractors did not comply with A.I.D. regulations; and (3) advances provided to several contractors and grantees exceeded immediate cash needs.

As of November 30, 1989, the A.I.D./Representative for Afghanistan Controller Office records showed unliquidated cash advances to 16 contractors/grantees totalling \$21.8 million. Our audit which primarily covered advances provided to four contractors/grantees who had unliquidated cash advances amounting to almost \$16 million (or 73 percent of the total unliquidated balances) as of November 30, 1989, found:

- None of the four contractors and grantees deposited advances they received in interest-bearing accounts as required by Federal regulations and sound cash management practices. As a result, the Federal Government is losing about \$500,000 annually in interest income to the U.S. Treasury based on estimated cash balances held by these contractors/grantees.
- The A.I.D./Rep office did not comply with A.I.D. regulations when providing cash advances to profit-making contractors. For example, we found: (1) no written determination had been made by the appropriate official that A.I.D. would benefit from providing advances; (2) the contractors were not required to post adequate security for their advances; (3) prior approval had not been requested or received from the appropriate A.I.D./Washington official for the advances; and (4) no interest had been charged on any advances, and the A.I.D. Rep had not requested a waiver of this requirement. As a result, over \$37 million in cash advances was improperly provided to profit-making contractors.
- Although A.I.D. regulations state that advances be limited to the minimum amount needed for immediate disbursing needs (i.e., 30 days), we found that almost all the contractors/grantees reviewed were being provided advances which exceeded their immediate cash needs. For example, one grantee had \$1.2 million from A.I.D. advances in its bank account as of October 31, 1989. Based on the grantee's planned disbursement schedules for its sub-grantees and monthly administrative costs, the advances on-hand would cover its cash needs through February 1990, a period of four months. We estimate this grantee had excessive advances of over \$800,000 as of October 31, 1989. Advancing cash prior to when actually needed resulted in unnecessary interest expense for the Federal

Government.

The ARM made a number of recommendations to better ensure advances provided by the A.I.D./Rep office complied with A.I.D. regulations. The A.I.D./Rep took several actions to respond to the problems surfaced by our ARM which we believe should significantly improve controls over cash advances. For example, the A.I.D./Rep instructed all contractors/grantees to deposit cash advances into interest-bearing accounts. Further, all project officers were instructed to request that contractors/grantees provide detailed supporting documentation to justify the amount and time period of all cash advances.

Despite the A.I.D./Rep actions, two problems remain. The first problem concerns the use of interest-bearing accounts. Pakistan law prohibits the payment of interest on local currency deposits. However, Pakistan banks make available profit and loss sharing accounts and the A.I.D./Rep instruction to contractors/grantees to use interest-bearing accounts indicated these type accounts could be used.

Since most advances provided to contractors/grantees are deposited in local currency accounts, this would mean depositing advances in profit and loss accounts. The problem with this arrangement is what happens if the bank incurs losses and charges contractors/grantees for a portion of the loss? We believe depositing advances in these type of accounts may be subjecting U.S. Government funds to an unreasonable risk. In response to our suggestion, the A.I.D./Rep office requested the Regional Legal Advisor to review the merits and legality of using profit and loss accounts.

The second problem area concerns advances to profit-making contractors. Although in responding to our ARM, the A.I.D./Rep maintained they had complied with A.I.D. regulations and had the authority to approve local currency advances to profit-making organizations, we continue to believe advances to profit-making contractors do not fully comply with A.I.D. regulations. While the A.I.D./Rep received authority in January 1990 to provide advances to profit-making contractors, A.I.D. regulations also stipulate other requirements that we do not believe have been met. For example, we have been provided no evidence to indicate the A.I.D./Rep office complied with the requirements that profit-making contractors post adequate security for advances and that interest be charged on all advances unless waived. We, therefore, suggest the A.I.D./Rep review all requirements related to providing advances to profit-making contractors to ensure such advances fully comply with the A.I.D. regulations.

3. Controls Over Storage of CEP Commodities

One critical internal control over inventories is to periodically compare on-hand balances with stock records to assure the two agree. This helps assure the accuracy of the inventory records and serves as a deterrent to possible theft of inventories. Also, where multiple storage locations exist, the subsidiary records at these locations should periodically be reconciled with the central stock records. These comparisons were not being done by the CEP procurement services contractor. We suggest the

A.I.D./Representative require the procurement services contractor to (a) reconcile, on at least a weekly basis, subsidiary warehouse inventory records with the central stock record and (b) conduct periodic physical inventories of commodities stored in its warehouses.

4. Identifying Commodities as being Provided by the U.S. Government

Commodities provided under the CEP and PL-480 program were not identified as being provided by the U.S. Government. With the Soviet withdrawal from Afghanistan and a lessening tension, we believe the restriction should be reassessed. The U.S. Senate Appropriations Committee in its September 1989 report expressed its concern that the assistance is not being identified as United States aid, but is instead seen by Afghans as aid given by the governments of the European expatriates implementing these programs on our behalf.

We noted at the completion of our audit that the commodities were being marked as being provided by the Afghan interim government. We suggest that A.I.D./Rep consider U.S. Government markings on a pilot basis to assess the security and other risks. Identifying commodities as being provided by the U.S. Government could also help monitoring efforts to detect unauthorized diversion of the commodities.

PART III - EXHIBITS AND APPENDIX

ANALYSIS OF THE QUANTITIES AND VALUE OF FOOD COMMODITIES ISSUED TO AFGHAN PARTIES
November 1986 through December 1989

COMMODITIES	Unit of measure	Total Quantity Contracted 1>	Total Value Contracted	Average Price Per Unit	Total Quantity Provided 2>	Total Value Provided	Total Quantity Issued 3>	Total Value Issued	Total Quantity In Stock 4>	Total Value In Stock
CFP FOOD										
Dal (Beans)	kgs	6,400,000	\$2,693,000	0.4208	5,998,450	\$2,524,035	3,330,750	\$1,401,517	2,667,700	\$1,122,518
Lobia (Beans)	kgs	1,300,000	762,000	0.5862	1,300,000	762,000	1,237,600	725,424	62,400	36,576
Salt	kgs	720,000	52,000	0.0722	720,050	52,004	241,650	17,453	478,400	34,551
Ghee in Tins (Veg.oil)	kgs	2,867,000	2,562,000	0.8936	2,462,080	2,200,157	1,774,485	1,585,710	687,595	614,447
Ghee in Boxes (Veg.oil)	boxes	74,000	47,500	0.6419	63,000	40,439	63,000	40,439	0	0
Sugar	kgs	2,926,642	1,640,000	0.5604	2,926,642	1,640,000	2,025,009	1,134,753	901,633	505,247
Black Tea	kgs	564,475	1,237,700	2.1927	444,555	974,757	419,245	919,260	25,310	55,496
Green Tea	kgs	27,233	42,000	1.5422	27,223	41,985	27,223	41,985	0	0
7-Day Food Pack	packs	587,031	6,782,000	11.5531	587,031	6,782,000	587,031	6,782,000	0	0
1-day Food Pack	packs	128,520	234,000	1.8207	128,520	234,000	128,520	234,000	0	0
TOTAL			\$16,052,200			\$15,251,376		\$12,882,541		\$2,368,835
PL480 WHEAT	kgs	240,900,000	\$59,144,000	0.2455	188,123,909	\$46,186,801	178,167,849	\$43,742,463	9,956,060	\$2,444,339
GRAND TOTAL			\$75,196,200			\$61,438,177		\$56,625,063		\$4,813,174

1> Based on purchase contracts and PL-480 agreements

2> Total amount in stock plus amount issued to Afghan parties

3> Reported issues to the various Afghan parties

4> Reported amounts held in contractor's/Government of Pakistan's warehouses as of December 31, 1989

ANALYSIS OF THE VALUE OF FOOD COMMODITIES ISSUED AND TRACKED 3)
(AUGUST 1 THROUGH OCTOBER 31, 1989)

LOCATION/ COMMODITIES	TOTAL ISSUES	ACTUALLY TRACKED	PERCENT TRACKED	JUST OBSERVED CROSSING BORDER	PERCENT OBSERVED CROSSING BORDER	INTENDED DESTINATION REACHED 1)	PERCENT REACHED DESTINATION	AMOUNT OFFLOADED 2)	PERCENT OFFLOADED
PESHAWAR									
Dal Chana (Beans)	\$284,419	\$128,586	45.21%	0	0.00%	\$53,177	41.36%	\$75,409	58.64%
7-Day Food Packs	256,433	170,605	66.53%	0	0.00%	85,216	49.95%	85,389	50.05%
Ghee (Veg.oil)	245,114	141,495	57.73%	0	0.00%	48,687	34.41%	92,808	65.59%
Lubia (Beans)	270,473	149,871	55.41%	0	0.00%	51,686	34.49%	98,185	65.51%
Sugar	252,547	131,504	52.07%	0	0.00%	39,476	30.02%	92,028	69.98%
Black Tea	167,961	109,655	65.29%	0	0.00%	34,767	31.71%	74,887	68.29%
PL480 Wheat	2,965,063	922,569	31.11%	0	0.00%	343,461	37.23%	579,108	62.77%
TOTAL	\$4,442,009	\$1,754,285	39.49%	0	0.00%	\$656,471	37.42%	\$1,097,814	62.58%
QUETTA									
Dal Chana (Beans)	\$37,872	\$10,225	27.00%	\$10,225	100.00%	0	N/A	0	N/A
7-Day Food Packs	124,762	4,702	3.77%	4,702	100.00%	0	N/A	0	N/A
Ghee (Veg.oil)	53,129	1,680	3.16%	1,680	100.00%	0	N/A	0	N/A
Lubia (Beans)	88,282	7,240	8.20%	7,240	100.00%	0	N/A	0	N/A
Sugar	106,784	2,186	2.05%	2,186	100.00%	0	N/A	0	N/A
Black Tea	28,795	3,223	11.19%	3,223	100.00%	0	N/A	0	N/A
PL480 Wheat	333,718	59,632	17.87%	59,632	100.00%	0	N/A	0	N/A
TOTAL	\$773,341	\$88,888	11.49%	\$88,888	100.00%	0	N/A	0	N/A
PESHAWAR AND QUETTA									
Dal Chana (Beans)	\$322,291	\$138,811	43.07%	\$10,225	7.37%	\$53,177	38.31%	\$75,409	54.32%
7-Day Food Packs	381,195	175,307	45.99%	4,702	2.68%	85,216	48.61%	85,389	48.71%
Ghee (Veg.oil)	298,243	143,175	48.01%	1,680	1.17%	48,687	34.01%	92,808	64.82%
Lubia (Beans)	358,754	157,111	43.79%	7,240	4.61%	51,686	32.90%	98,185	62.49%
Sugar	359,331	133,690	37.21%	2,186	1.64%	39,476	29.53%	92,028	68.84%
Black Tea	196,755	112,876	57.37%	3,223	2.86%	34,767	30.80%	74,887	66.34%
PL480 Wheat	3,298,781	982,201	29.77%	59,632	6.07%	343,461	34.97%	579,108	58.96%
TOTAL	\$5,215,351	\$1,843,173	35.34%	\$88,888	4.82%	\$656,471	35.62%	\$1,097,814	59.56%

1) Refers to the intended destination of a convoy--not the final destination of commodities.

2) Refers to occasions where commodities were off-loaded and given to various party commanders before reaching the convoys' intended destinations.

3) The above values are derived from approximate average prices of each commodity since the inception of the program through December 1989.

ANALYSIS OF THE REASONS GIVEN FOR OFF LOADING COMMODITIES
(AUGUST 1 THROUGH OCTOBER 31, 1989)

LOCATION/ COMMODITIES	Awaiting More Commodities	Enemy Controls Road	Faulty Trucks	Fear of Air Raids	No fuel/ No funds	to go on/ No escort	No Road	No whse No road	Road is Mined	Steep Road	No Storage Space	No Permit	Parties In- Fighting	TOTAL
OFF LOADED IN AFGHANISTAN														
Dal Chana (Beans)	\$2,104	\$29,708	\$2,104	\$1,894	\$0	\$0	\$13,068	\$0	\$252	\$0	\$0	\$0	\$0	\$49,130
7-Day Food Packs	0	20,842	4,621	0	0	0	46,986	5,777	0	0	0	0	0	78,226
Ghee (Veg.oil)	2,310	29,256	2,471	2,558	4,674	0	9,223	1,251	420	16,197	0	0	0	68,360
Lubia (Beans)	1,964	22,920	1,817	1,206	0	0	14,208	1,026	234	7,621	0	0	0	50,996
PL480 Wheat	10,876	40,589	7,586	13,694	14,460	0	87,271	5,818	20,990	88,331	0	0	0	289,614
Sugar	2,130	13,029	1,345	1,285	2,550	0	14,761	953	4,091	11,872	0	0	0	52,015
Black Tea	1,579	17,629	1,645	1,862	3,092	0	16,235	1,184	329	9,933	0	0	0	53,487
TOTAL	\$20,962	\$173,974	\$21,589	\$22,498	\$24,775	\$0	\$201,751	\$16,009	\$26,317	\$133,953	\$0	\$0	\$0	\$641,828
	3%	27%	3%	4%	4%	0%	31%	2%	4%	21%	0%	0%	0%	100%
OFF LOADED IN PAKISTAN														
Dal Chana (Beans)	\$0	\$0	\$0	\$2,483	\$5,470	\$0	\$0	\$0	\$0	\$5,197	\$463	\$0	\$12,666	\$26,279
7-Day Food Packs	0	0	0	0	0	0	0	0	0	3,697	3,466	0	0	7,163
Ghee (Veg.oil)	0	0	0	3,467	6,018	0	0	0	0	1,229	0	0	13,735	24,449
Lubia (Beans)	0	0	0	1,524	4,690	0	0	0	0	2,345	2,931	0	35,700	47,189
PL480 Wheat	0	0	0	13,453	55,434	78,364	0	0	0	17,602	13,306	14,730	96,604	289,494
Sugar	0	0	0	1,737	11,040	3,362	0	0	0	2,718	2,522	0	18,633	40,013
Black Tea	0	0	0	2,697	3,684	285	0	0	0	2,105	2,829	0	9,801	21,401
TOTAL	\$0	\$0	\$0	\$25,362	\$86,336	\$82,011	\$0	\$0	\$0	\$34,893	\$25,516	\$14,730	\$187,139	\$455,987
	0%	0%	0%	6%	19%	18%	0%	0%	0%	8%	6%	3%	41%	100%
OFF LOADED IN AFGHANISTAN AND PAKISTAN														
Dal Chana (Beans)	\$2,104	\$29,708	\$2,104	\$4,376	\$5,470	\$0	\$13,068	\$0	\$252	\$5,197	\$463	\$0	\$12,666	\$75,409
7-Day Food Packs	0	20,842	4,621	0	0	0	46,986	5,777	0	3,697	3,466	0	0	85,389
Ghee (Veg.oil)	2,310	29,256	2,471	6,026	10,692	0	9,223	1,251	420	17,425	0	0	13,735	92,808
Lubia (Beans)	1,964	22,920	1,817	2,730	4,690	0	14,208	1,026	234	9,965	2,931	0	35,700	98,185
PL480 Wheat	10,876	40,589	7,586	27,147	69,894	78,364	87,271	5,818	20,990	105,933	13,306	14,730	96,604	579,108
Sugar	2,130	13,029	1,345	3,022	13,590	3,362	14,761	953	4,091	14,590	2,522	0	18,633	92,028
Black Tea	1,579	17,629	1,645	4,559	6,775	285	16,235	1,184	329	12,038	2,829	0	9,801	74,887
TOTAL	\$20,962	\$173,974	\$21,589	\$47,060	\$111,111	\$82,011	\$201,751	\$16,009	\$26,317	\$168,846	\$25,516	\$14,730	\$187,139	\$1,097,814
	2%	16%	2%	4%	10%	7%	18%	1%	2%	15%	2%	1%	17%	100%

Source: Information is obtained from monitoring reports prepared by contractor's monitors accompanying convoys loaded with PL480 and CRP commodities leaving Peshawar warehouses for intended destinations inside Afghanistan. The dollar values are derived by using the approximate average unit prices of each commodity.

memorandum

DATE: May 16, 1990

REPLY TO
ATTN OF: Larry Crandall, A.I.D. Representative

SUBJECT: Response to the Draft Audit Report on the Commodity
Export Program

TO: Whitney Glynn, Acting RIG/A/Singapore

This is our response to the draft audit report on the Commodity Export Program, Project no. 306-0205. We note from Mr. Howard's memorandum of March 22, that it is RIG/A's intention to include this response as an annex to the final audit report. That is fine. However, we continue to disagree with the approach taken with this audit. There are omissions in the audit discussions which, while addressed in the attached response, would color incorrectly the reader's views unless and until they review our response. There is also judgmental language with which we take exception.

We refer, for example, to the construction of the summary statement placed on the cover page of the report: words such as "reportedly" (in the absence of some concrete finding of diversion) are, in our view, the unsubstantiated opinion of the authors. We request that the following statement be used.

Better systems are always needed to assure that food commodities reach the people of free Afghanistan (or any country) and to measure program progress. Due to severe monitoring restrictions, A.I.D. has not had complete access to the logistic chain which has handled the food commodities issued to Afghan parties and shuras (local councils) for transport inside Afghanistan and has limited verifiable information to substantiate that the commodities reached intended beneficiaries -- the people in free Afghanistan. However, systems have been improved on a continuing basis during the course of this project.

Should you decide not to include the above language, then we request that this specific memorandum be included as part of our formal response.



We would suggest that you carefully review the rest of the report, in the light of the attached comments, to assure that you wish to issue it without significant changes. Should you desire to pursue further any issue regarding the audit of the Commodity Export Program, this office stands ready to offer all possible assistance. We would once again request that an audit team return to Islamabad to review a significant number of documents which were either overlooked, or never reviewed, during the audit.

O/AID/REP RESPONSE TO THE DRAFT AUDIT REPORT
FOR THE
COMMODITY EXPORT PROGRAM (306-0205)

I. GENERAL

The Office of the A.I.D. Representative for Afghanistan has serious problems with the methodology employed in the audit of the Commodity Export Program (CEP). The CEP was recommended by the Mission as the first of our projects to be audited by RIG/A/Singapore because it is the largest project in the portfolio, our continuing concerns with improving monitoring systems, the change in major contractors, the departure this summer of the sole Project Officer for the CEP since inception and because an audit could contribute significantly to a review and redesign of the CEP planned for spring of 1990. This request was followed by a letter to RIG/A/Singapore on August 6, 1989, which pointed to the unique features of the program and requested that the audit be carried out in cognizance of these features.

In a meeting with RIG/A personnel in January, 1990, regarding a "preliminary" draft, the Mission expressed the view that RIG/A's work at that time had not taken into account the critical historical context of the project. Although somewhat changed from that "preliminary" draft, the draft audit report as presented still suffers from the same serious weakness. The Mission believes that there was no formal exit interview with RIG/A personnel which would have provided the Mission the opportunity to discuss RIG/A views face-to-face.

The draft audit report ignores for the most part the historical context of A.I.D.'s assistance program for Afghanistan and the evolutionary nature of the CEP and the monitoring system which features prominently in the draft audit. Much of the material necessary for a substantive and thorough understanding of the program and its historical parameters apparently was neither reviewed nor dealt with in the draft. For instance, on the subject of monitoring and allocation we have identified approximately 110 pertinent cables and other documents (roughly half of which are classified) from our CY 1989 files, the import of which appear not to be reflected in the draft audit report. Moreover, the basic tenets under which the Afghanistan program was established -- and without which a useful or accurate audit could not be done -- have been ignored. The "notwithstanding" legislation which offers flexibility through relief from standard regulations, the inclusion in all of the Afghan program contracts of relief from normal accountability requirements for activities conducted inside Afghanistan, the August 1985 determination by the Assistant Administrator for Asia and the Near East that the Afghan program was composed of "activities," not projects as defined by A.I.D. Handbook 3, are all seminal to an understanding of the CEP. They are neither discussed nor alluded to. There is no reference to work done by such previous reviewers as the Congress, the GAO and RIG/I/Singapore.

Much of the pertinent documentation is classified, particularly that which illuminates the evolutionary aspects of the program. RIG/A/Singapore personnel informed us that it was their preference and intent, over our protests, not to issue a classified audit report. It is our view that a predisposition against classified audit reports should not be the basis for preparing a document which does not fully consider all of the available information.

The RIG/A has necessarily and correctly put time parameters around its review of implementation activities. We cannot agree, however, that it is appropriate to come to conclusions about a unique program such as this, without considering the decisions and policies which went into the development of the program. To do so is to risk, at a minimum, producing a report that has the narrowest returns (relative to the time and resources invested in the audit) in terms of management improvement. At worst, through the omission of germane information, we risk an audit report with the potential for misleading conclusions.

II. RECOMMENDATION NO. 1

- a. Ensure the monitoring restrictions imposed by the Government of Pakistan and the Afghan parties are adequately resolved;
- b. develop a monitoring system which can provide reasonable assurance that CEP and PL 480 commodities get inside Afghanistan, reach intended beneficiaries, and are not diverted to unauthorized uses (e.g., the system should increase direct observation of commodity distribution inside Afghanistan and find ways to follow up or test distribution systems being used to determine if the systems are working as intended and commodities are reaching the intended beneficiaries); and
- c. in coordination with the CEP procurement services contractor, develop a list of key monitoring information needs that should be reported on a periodic basis.

In discussing this recommendation, it is useful to highlight the changing ability of this Mission to perform monitoring. Before the initiation of cross-border commodity movements in 1986, it was clear to all concerned that access for the purposes of monitoring would be severely constrained. It was U.S. Government policy that the program should go forward in spite of the constraints. It was expected that only gradually would access be increased. This expectation is reflected in the contract language regarding the responsibilities of the contractor and end-use accountability for CEP and PL-480 commodities. In fact, there has been constant attention to the issue of monitoring by the Office of the A.I.D. Representative and continuing improvement in our ability to monitor. The record is quite clear in this regard.

However, the draft audit report ignores this evolutionary process of improvement by dealing with events or other short-term arrangements as though they are the permanent state of the monitoring system. This is misleading in that it does not capture useful lessons-learned that have been worked into the entire program in very useful ways.

The draft is further flawed by the failure to differentiate between the monitoring of food deliveries and the allocation process associated with the deliveries. This distinction is central to the most recent efforts of this Mission, described below, but it is not touched on in the report. From 1986 through mid-1989, the emergency nature of the program and the institutional nature of our interlocutors precluded A.I.D. participation in the allocation process in any meaningful way. This was recognized by policy-makers at all levels and it was accepted that the humanitarian purposes of the program would be acceptably served if food was delivered across the border to a population that was considered to be generally in need. With recent events and changes in Afghan leadership and responsibilities within the Government of Pakistan, A.I.D. is now participating in allocation decisions and the concept of "intended beneficiaries" has increasing relevance. The distinction between monitoring and allocation is still worthwhile, and blanket statements which do not make that distinction misrepresent the purposes and accomplishments of the CEP and the PL 480 programs.

The draft audit report states that "adequate monitoring systems were not in place to reasonably assure that CEP and PL-480 commodities entered Afghanistan and reached the intended beneficiaries" (page i). It is our view that during the initial years of this program, simply getting food across the border was, ipso facto, getting it to intended beneficiaries. Congress and the Administration agreed.

The primary misconception fostered by the draft audit report, then, is that the CEP monitoring system, as it operated during the period under review, was inadequate. It is the view of this Mission that while in need of many improvements (some of which were noted in Recommendation No. 1), the monitoring system used in Peshawar just prior to the suspension of food distribution in December 1990 was adequate in assuring that there was no diversion of food.

It is our view that the analysis of monitoring on page 9 of the draft audit report, rather than proving that monitoring was inadequate, supports the belief that it was, in fact, adequate. Setting aside for the moment the 25 percent of tracked commodities that were initially off-loaded in Pakistan, the Mission tracked a sample of 27 percent of the commodities into Afghanistan. When queried as to what was an acceptable percentage of coverage of commodity movement, RIG/A staff

declined to respond. In the absence of any standard, a RIG/A determination that 27 percent coverage was not adequate, appears arbitrary. We judge that there are many food and other programs in the world which monitor a far lower percentage than 27 percent. Additionally, an A.I.D./Washington food team, composed of experts on food programs from within and outside A.I.D. who were in Pakistan to provide an independent assessment of the Mission's food program, reported of the monitoring system as it operated in November 1989, that:

"...given the conditions in Afghanistan, and given the inability of O/AID/Rep American staff to directly monitor the food program, it still falls short of monitoring/accountability rigor expected of most emergency feeding programs. On the other hand, O/AID/Rep's RONCO contract monitoring system using Afghan staff has begun to generate details on distributions which surpass those achieved in other emergency programs in war zones with which team members have been acquainted" (ISLAMABAD 03194, Attachment No. 1).

Finally, the reporting cable (STATE 81171, 14 March, 1990) of the interagency review of the Mission's FY 1990 PL-480 proposal advised that for the future, tracking 25-30 percent of randomly chosen food shipments would represent an appropriate sample. This guidance by the Agency confirms our judgement that the level of monitoring as conducted in Peshawar in November 1989 was adequate.

If we count the commodities tracked to warehouses on the Pakistan side of the border, the total sample covered, as reported in the draft audit report, was 35 percent. We question the particular concern with the fact that the food off-loaded in tribal areas on the Pakistani side of the border was somehow less verified than food off-loaded a few kilometers further on. It appears to be an arbitrary distinction. In any case, a careful review of the records of those warehouses, conducted as a separate exercise just after the suspension of food shipments over the issue of allocation planning and monitoring, confirmed that all (11,094.7 M/T) of the wheat and other stores had continued their journey into Afghanistan within days of being off-loaded. This analysis of wheat off-loaded during November 1989 (Attachment No. 2) was available in January 1990 during the final visit of your staff to present the "preliminary" audit report.

An interesting related presentation is Exhibit 3, an analysis of the reasons given for off-loading commodities. It appears to us that, given the political, military and other environmental conditions under which this program is implemented, the reasons presented by our monitors for off-loading are reasonable and tend to confirm the necessity for the off-loading. On the other hand, the intent of this exhibit, as we understand it, is to illustrate the need for summarization and analysis of the data being

reported by the monitors -- a recommendation with which we entirely agree, provided that the information generated is factual and useful. In this instance the methodology of the analysis appears fallacious, the linking of the reasons for off-loading to monetary values of various foodstuffs seems pointless and the aggregation of reasons given by the monitors for off-loading is of little practical use to anyone since this Mission has little or no way of affecting any change in the problems described. Any potential use of this analysis is obviated by the absence of time frames and locations.

The above notwithstanding, we believe that, as set forth below, we have addressed the issues surrounding Recommendation No. 1 .

With respect to Recommendation No. 1 a., the requirement for adequate access for monitoring purposes and for A.I.D. participation in the planning and allocation process were set out in the FY 1989 PL 480 Title II Implementation Plan, Amendment No.1, signed with the Government of Pakistan September 12, 1989 (Attachment No. 3). The arrangements could not come into effect however, without the concurrence and cooperation of the Afghan Interim Government (AIG) which was not a direct party to the Implementation Agreement. For the issuance of PL 480 and CEP commodities from Peshawar, agreement was reached with the AIG, and reported to Washington in ISLAMABAD 06548, 3/26/90. Washington concurred with our judgement that an acceptable agreement had been reached and authorized resumption of deliveries in STATE 107989, 4/5/90. Deliveries began on April 17, 1990, as reported in ISLAMABAD 08581 (Attachment No. 4). In Quetta, the other point of food offtake, movements did not begin until May 3, 1990, after delayed agreement to the A.I.D. conditions on monitoring by the AIG Quetta Food Committee was obtained on April 29, 1990. Because of the difficulties we have experienced in Quetta over the issue of monitoring, we have directed that there will not be a second convoy to transport food until the return of monitors from the first convoy, who can report on the distribution of the food commodities to the ultimate recipients. At this writing, the first convoy has not yet reached the final destination because of fighting in the area, and no further convoys have been released.

With respect to Recommendation 1.b., RONCO has recently strengthened its monitoring capability as described in their Monitoring Status Report (Attachment No. 5). Monitors now available total 65, 45 operating from Peshawar and 20 from Quetta. Training programs for monitors have been arranged and started. At current off-take levels, RONCO expects to have 100 percent coverage of food convoys to initial or final destinations in Afghanistan. We are confident that overall monitoring, including delivery to final recipients, will reach or exceed the 25-30 percent coverage called for in the guidance from Washington. Follow-up on locations not monitored will be accomplished by independent monitors, armed with records of earlier food distribution, who will visit warehouses and points

of final destination to confirm that distribution occurred as planned. These monitors will also selectively verify the findings of monitors sent in earlier with the initial convoys. It is our view that the monitoring system as described satisfies the requirement of part b of Recommendation No. 1.

With respect to Recommendation No. 1. c., for some time we have been supporting the creation of a computerized data base and software configurations which will permit the aggregation and analysis of data derived from individual monitoring and accounting reports. This system is now coming on line. At the same time, partly as a result of the training of monitors, the efforts of Mission and RONCO staff and the work of the Mission's Data Collection and Analysis Unit in Peshawar, new report forms have been developed for the RONCO monitors. Additionally, consultant services are planned to foster improvements, once some experience with the new procedures is gained. RONCO has proposed a series of reports, utilizing the new computer capacity and the new monitoring forms, which will offer the opportunity to assess the utility of various aggregations of data. We will review these reports, once sufficient data are available, with a view toward testing their utility as management tools, dispensing with, retaining or improving them as appropriate. The proposed reports are presented in Attachment No. 5. It is our view that the enhanced capacity and the selection of new information packages satisfy the thrust of part c of Recommendation No. 1.

III. RECOMMENDATION NO. 2

We recommend the A.I.D./Representative for Afghanistan develop and implement:

- a) quantifiable and/or qualitative indicators to measure progress toward meeting the urgent food needs of the people in free Afghanistan;
- b) a management system for reporting on the progress in achieving each established indicator; and
- c) a formal policy and procedures for determining the types and quantities of CEP and PL-480 commodities and for assuring appropriate allocations of the commodities.

Given that Recommendation No. 2 deals with the PL 480 and food commodity components of the CEP, our response will be directed toward those elements and therefore will not deal with the complete scope and inputs of the CEP.

Mission policy with regard to our activities and the PL 480 program has been to parallel regular A.I.D. precepts to the extent feasible. It was for this reason that the Mission prepared somewhat ambitious data collection, monitoring and evaluation plans in 1987 for all of the then existing projects. As the draft audit report points out, the plan was unrealistic

given the wartime conditions under which the Mission had to implement the activity. Not only was food a politically sensitive commodity, but semi-disciplined Mujahideen forces were also unable to provide such information even if they had been willing to do so.

From the inception of the program, the Mission, with full Washington concurrence, has maintained a qualitative distinction between monitoring of the CEP and PL 480 programs on the one hand, and the sectoral projects on the other. Despite the war, we have been able to set targets and measure the progress of our health, education and agriculture activities. However, it was recognized that food was in a different category and that the Mission must rely to a much higher degree and with much greater autonomy on local Afghan decision-making. Also, A.I.D., in response to U.S. Government policy, has not had a presence inside Afghanistan, and there is no host government producing surveys, data-gathering or reporting which A.I.D. normally relies upon in other countries for making allocation decisions. Thus, it made sense for A.I.D. to rely upon our Afghan and GOP colleagues who had more information than we upon which to base allocation decisions.

After the Soviet military withdrawal in February 1989, the Mission recognized that changes had become possible and should be made in the planning and monitoring of PL 480 and CEP food distribution. The draft audit report describes Mission efforts to install a more participative allocation and monitoring system through revisions to the transfer authorization -- a document binding on the GOP (which has no presence in resistance areas) but not on the Afghan resistance (which does have a presence) -- which describes specific procedures to be followed to assure accountability. It was very difficult to achieve agreement to implement these new procedures, especially on the part of the non-signatory Afghans. The program has been suspended several times in order to obtain compliance with the needed reforms.

The cut-off date of the draft audit report is December 31, 1989. Since that time, the Mission has submitted a FY 1990 PL 480 Food Proposal which describes progress in developing new procedures for the still-suspended program, and the conditions which would be required for its resumption. A Washington inter-agency review involving the Assistant Administrators for ANE and FVA as well as others, while recommending approval of the FY 1990 program to the Development Coordination Committee (DCC), noted minimum monitoring procedures must be accepted by the Afghans prior to resumption of the program, and agreed that "progress on allocation and monitoring should be seen as an ongoing process where steady improvement is expected." (STATE 81171, 3/11/90)

The Mission reported on March 26, 1990 (ISLAMABAD 06548) that agreement had been reached on effective monitoring of shipments from Peshawar, and described the allocation and monitoring process. On April 15, 1990, Washington reported DCC approval of

the FY 1990 program, and approved immediate resumption of the current program on the basis of the Mission's report (STATE 107969).

The Mission is proceeding cautiously to resume implementation of the program on the basis of the AIG Peshawar Food Committee plan. This plan calls for delivery in one month of 3,500 metric tons (MT) of PL 480 wheat and CEP food which had previously been approved by the A.I.D. Representative. As of May 8, 1990, there had been offtakes of food commodities from Peshawar on only four days. (This was partially due to the intervening, three-day Eid-ul-Fitr holiday, one of the most significant of the year.) Although Washington had approved a 25-30 percent monitoring sample, the Mission plans in the beginning to aim for as extensive monitoring as possible. To date, 100 percent monitoring has been accomplished from Peshawar, and will be required initially in Quetta until the Mission has sufficient experience to assure adequacy of monitoring from there.

With respect to Recommendation No. 2.a., the Mission's FY 1990 Proposal provided a summary 1990 food grains assessment on a macro basis which demonstrated the need for continued imports of PL 480 and other food grains. The Proposal also described the AIG food allocation plans, and the analytic tools the Mission is developing to assess these plans during the approval process. These tools, all of which are under development, consist of: an improved demographic profile of Afghanistan and Afghan refugees; a geographic information system being developed as a part of the Agricultural Sector Support Project (ASSP); and market and trade conditions surveys also being initiated under the ASSP. The Mission uses available information to review the AIG allocation plans prior to approval. Its ability to provide meaningful review should steadily improve over the next year as our analytical capability increases. Washington has accepted this plan as the basis for the FY 1990 agreement.

Regarding Recommendation No. 2.b., RONCO has improved its reporting system to include individual monitoring reports, weekly summary highlights, and more detailed and analytical reports. At A.I.D./Washington's request, the Mission will submit a quarterly analytical report describing both accomplishments, and progress in the ongoing process of improving the quality of our food targeting and monitoring.

With respect to Recommendation No. 2.c., the Mission's approved FY 1990 PL 480 Proposal details the procedures to be used in allocating and monitoring PL 480 wheat over the coming 12 months. The Mission has determined that no further procurement of CEP food commodities should be planned. This decision would be changed if a justified and documented proposal became possible, and if funds were available for that purpose at the time the proposal was favorably reviewed. The remaining CEP food commodities will be distributed along with the PL 480 wheat according to an individual ration formula accepted by the AIG

Food Committees as described in ISLAMABAD 06548.

The above discussion describes work which was well underway at the end of the RIG's audit cutoff date of December 31, 1989, though not fully described in the draft audit report. Over the past four months procedures have been negotiated with the Government of Pakistan and the Afghan Interim Government, and approved by A.I.D./Washington and the inter-agency DCC for the next 12 months of implementation of food assistance. The procedures for this unconventional, cross-border humanitarian assistance program are not perfect, but they are appropriate to the circumstances prevailing today, and provide for steady improvement over the coming year. We therefore believe that Recommendation No. 2 should be closed.

We believe that the information provided above warrants your closing of Recommendations No. 1 and 2.

In conclusion, the Mission would like to state its disappointment regarding the level of perceptiveness and insight which this audit has contributed to our efforts to review and redesign the CEP as noted at the beginning of these comments.

Note: The documents attached to the A.I.D./Representative for Afghanistan's comments are not included in this report.