



Pakistan and Afghanistan



April 2010

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Contents

| Tab | Page |
|--|------|
| 1. Executive Summary | 1 |
| 2. Office of Inspector General—Overview | 5 |
| Pakistan | |
| 3. Pakistan—Introduction | 7 |
| 4. Pakistan Performance Audit Findings and Recommendations | 11 |
| 5. Pakistan Financial Audit Findings | 15 |
| 6. Planned Performance Audits of USAID/Pakistan-Funded Activities—Fiscal Year 2010 | 21 |
| Pakistan Performance Audits | |
| 7. Pakistan Performance Audits—Fiscal Year 2010 | |
| <i>USAID/Pakistan’s Capacity Building Program for the Federally Administered Tribal Areas Development Program (January 2010)</i> | 25 |
| 8. Pakistan Performance Audits—Fiscal Year 2009 | |
| <i>USAID/Pakistan’s Earthquake Reconstruction Activities (November 2008)</i> | 29 |
| 9. Pakistan Performance Audits—Fiscal Year 2008 | |
| <i>USAID/Pakistan’s Education Sector Reform Assistance Program (March 2008)</i> | 31 |
| 10. Pakistan Performance Audits—Fiscal Year 2007 | |
| <i>Selected Activities Under USAID/Pakistan’s Basic Health Program (May 2007)</i> | 33 |

| | |
|---|----|
| 11. Pakistan Performance Audits—Fiscal Year 2004 | |
| <i>Risk Assessment of Major Activities Managed by USAID/Pakistan (October 2003)</i> | 35 |

| | |
|--|----|
| 12. Pakistan Performance Audits—Fiscal Year 2003 | |
| <i>USAID’s Bureau for Asia and the Near East Monitoring of the Government of Pakistan’s Compliance with the Provisions of USAID Grant No. 391-K-005 (January 2003)</i> | 37 |

Pakistan Investigative Activity

| | |
|---|----|
| 13. Pakistan Investigative Case Work and Fraud Prevention Briefings | 39 |
|---|----|

Afghanistan

| | |
|---|----|
| 14. Afghanistan—Introduction | 41 |
| 15. Afghanistan Performance Audit Findings and Recommendations | 45 |
| 16. Afghanistan Financial Audit Findings | 73 |
| 17. Planned Performance Audits of USAID/Afghanistan-Funded Activities—Fiscal Year 2010..... | 81 |

Afghanistan Performance Audits

| | |
|---|-----|
| 18. Afghanistan Performance Audits—Fiscal Year 2010 | |
| <i>Audit of USAID/Afghanistan’s Human Resources and Logistical Support Program</i> | 87 |
| <i>Audit of USAID/Afghanistan’s Building Education Support Systems for Teachers Project</i> | 93 |
| <i>Audit of USAID/Afghanistan’s Civilian Assistance Program (December 15, 2009)</i> | 97 |
| <i>Audit of USAID/Afghanistan’s Power Sector Activities under Its Afghanistan Infrastructure Rehabilitation Program (November 10, 2009)</i> | 101 |

| | |
|---|-----|
| 19. Afghanistan Performance Audits—Fiscal Year 2009 | |
| <i>USAID/Afghanistan’s Land Titling and Economic Restructuring in Afghanistan Project (June 2009)</i> | 105 |
| <i>USAID/Afghanistan’s Local Governance and Community Development Project in Southern and Eastern Regions of Afghanistan (May 2009)</i> | 109 |
| <i>USAID/Afghanistan’s Higher Education Project (December 2008)</i> | 113 |
| 20. Afghanistan Performance Audits—Fiscal Year 2008 | |
| <i>USAID/Afghanistan’s Capacity Development Program (September 2008)</i> | 115 |
| <i>USAID/Afghanistan’s Accelerating Sustainable Agriculture Program (August 2008)</i> | 119 |
| <i>USAID/Afghanistan’s Small and Medium Enterprise Development Activity (June 2008)</i> | 125 |
| <i>USAID/Afghanistan’s Alternative Development Program—Southern Region (March 2008)</i> | 127 |
| <i>USAID/Afghanistan’s Agricultural, Rural Investment, and Enterprise Strengthening Program (January 2008)</i> | 129 |
| 21. Afghanistan Performance Audits—Fiscal Year 2007 | |
| <i>Selected Follow-On Activities Under USAID/Afghanistan’s Economic Program (August 2007)</i> | 133 |
| <i>USAID/Afghanistan’s Urban Water and Sanitation Program (June 2007)</i> | 135 |
| <i>Critical Power Sector Activities Under USAID’s REFS Program (May 2007)</i> | 137 |
| <i>USAID/Afghanistan’s Alternative Livelihoods Program—Eastern Region (February 2007)</i> | 139 |
| 22. Afghanistan Performance Audits—Fiscal Year 2006 | |
| <i>USAID/Afghanistan’s School and Health Clinic Reconstruction Program (August 2006)</i> | 141 |

| | | |
|---|---|-----|
| | <i>USAID/Afghanistan’s Rural Expansion of Community-Based Healthcare (REACH) Program (August 2006)</i> | 143 |
| | <i>USAID/Afghanistan’s Reconstruction of the Kandahar–Herat Highway Under the REFS Program (May 2006)</i> | 145 |
| | <i>USAID/Afghanistan’s Rebuilding Agricultural Markets Program (March 2006)</i> | 147 |
| | <i>USAID/Afghanistan’s Cashiering Operations (January 2006)</i> | 149 |
| | <i>Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (December 2005)</i> | 151 |
| 22. | Afghanistan Performance Audits—Fiscal Year 2005 | |
| | <i>USAID/Afghanistan’s Primary Education Program (April 2005)</i> | 153 |
| | <i>USAID/Afghanistan’s School and Clinic Reconstruction Program (March 2005)</i> | 155 |
| 23. | Afghanistan Performance Audits—Fiscal Year 2004 | |
| | <i>Kabul to Kandahar Highway Reconstruction Activities Funded by USAID/Afghanistan’s REFS Program (September 2004)</i> | 157 |
| | <i>Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program at USAID/Afghanistan (August 2004)</i> | 159 |
| | <i>Second Review of the Road Project Financed by USAID/Afghanistan’s REFS Program (March 2004)</i> | 161 |
| | <i>Review of the Road Project Financed by USAID/Afghanistan’s REFS Program (November 2003)</i> | 163 |
| 24. | Afghanistan Performance Audits—Fiscal Year 2003 | |
| | <i>Risk Assessment of Major Activities Managed by USAID/Afghanistan (March 2003)</i> | 165 |
| Afghanistan Investigative Activity | | |
| 25. | Afghanistan Investigative Case Work and Fraud Prevention Briefings | 167 |
| 26. | Afghanistan Investigative Summaries | 171 |

Executive Summary

Overview

This summary document provides information about Office of Inspector General (OIG) oversight activities in Pakistan and Afghanistan since fiscal year 2003.

OIG has strengthened its focus in Pakistan since the U.S. Agency for International Development (USAID) reopened its mission in 2002 and since that year has been providing oversight of USAID activities in Afghanistan as well. OIG covers a wide spectrum of USAID programs in the two countries, covering such areas as relief and stabilization, reconstruction, sustainable development, education, and health care. OIG's activities help USAID make sure that tax dollars are being spent wisely and effectively.

USAID obligations in Afghanistan for fiscal year (FY) 2002 through midyear FY 2010 totaled more than \$9.2 billion, and since FY 2003, OIG has expended over \$7.7 million in base appropriations and supplemental funding to oversee USAID's activities in that country. During the same period in Pakistan, USAID has provided more than \$3.65 billion to address priority programs. OIG expects to spend approximately \$3.8 million to provide in-country oversight for Pakistan in FY 2010.

Results—Fiscal Year 2003 to Second Quarter Fiscal Year 2010

| Activities | Pakistan | Afghanistan |
|-----------------------------------|---------------|----------------|
| Performance audits/reviews | 6 | 31 |
| Recommendations made ¹ | 16 | 115 |
| Recommendations closed | 13 | 101 |
| Recommendations open | 3 | 14 |
| Financial audits conducted | 29 | 32 |
| Questioned costs sustained | \$2.9 million | \$97.8 million |
| Investigations opened | 17 | 54 |
| Investigations closed | 12 | 33 |
| Investigations pending | 5 | 21 |
| Referrals for prosecution | 2 | 16 |
| Indictments | 0 | 8 |
| Convictions | 0 | 5 |
| Arrests | 0 | 10 |
| Administrative actions | 2 | 9 |
| Recoveries and savings | 0 | \$149 million |
| Fraud awareness briefings | 10 | 18 |
| Attendees at briefings | 320 | 483 |

¹ Performance audits only.

Highlights—FY 2010 Second Quarter

Capacity Building Projects in Pakistan's Federally Administered Tribal Areas Have Seen Little Progress

An OIG audit report pointed to several implementation difficulties in USAID's capacity building programs in the Federally Administered Tribal Areas (FATA) of Pakistan. The FATA region, which is the most economically depressed area of the country, has a population with a literacy rate estimated at only 17 percent, and 66 percent of people live below the national poverty line.

Local Pakistani institutions responsible for overall governance, health care, education, and public works projects lack the capacity to effectively manage services and development resources. In an attempt to remedy this problem, in 2008 USAID awarded a 3-year, \$46 million contract to Development Alternatives, Inc. (DAI), to increase the capacity of these institutions.

OIG's audit found that, although the program had provided training, taken initial steps to automate FATA institutions, and completed some media activities, little had yet been achieved to build the capacity of FATA governmental institutions and nongovernmental organizations (NGOs) responsible for providing services. The program had been in place for nearly 2 years of its 3-year planned lifespan, and it had not made significant progress with two of the program's main goals: improving institutions' capacity to govern and improving the capacity of NGOs to promote good governance.

Some of the problems could be attributed to the fact that the program had gotten off to a slow start. During the first year, the contractor focused its resources on working out best approaches to designing and implementing activities, building up relationships with FATA institutions, and developing work plans. Also, the deteriorating security situation in Peshawar and the November 2008 assassination of the chief of party of another USAID program delayed progress in the FATA capacity building program.

Moreover, although the program had implemented a few activities to address FATA NGO weaknesses, the few FATA-based NGOs that exist lack the human and financial resources to promote good governance effectively. In most instances, FATA NGOs needed to strengthen their proposal preparation skills, financial management practices, and monitoring and evaluation capabilities before they could start to promote good governance.

Because of a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers such as DAI. As a result, in June 2009 the mission refrained from fully funding a DAI incremental funding request of \$15.3 million and, 4 months later, approved only \$4.7 million in additional funds. In October 2009, the mission asked DAI to consider preparing a 90-day demobilization plan. However, as of mid-November 2009, no final decision had been made as to whether the DAI contract would undertake early

demobilization and termination or, if terminated, what program implementation mechanisms would replace the U.S.-based contractor.

In addition to the difficulties associated with the transition to a new implementation strategy, the audit found that overall capacity building in automation had achieved little success, and most of the computer hardware purchased for the program remained boxed up and unused. Furthermore, monitoring and reporting systems for managing development projects—such as a geographic information system that enables project information to be represented on maps and a database system to document the life cycle of development projects—have not been completed, and they may not be completed until June 2010.

This report made several recommendations to USAID to address these problems:

- Provide written guidance to the contractor and to FATA governmental institutions to identify contractual arrangements as the mission transitions to USAID's new implementation strategy
- Develop and issue implementation plans to ensure that computer equipment is used for intended purposes
- Confirm the existence of the computer equipment and issue a bill of collection to the contractor for any missing equipment
- Require the contractor to develop and put into use detailed implementation plans for information technology products for use by the FATA Secretariat

Audit Finds Significant Defects in Several Buildings in Afghanistan and Notes Concerns About Buildings' Ability To Withstand Future Earthquakes

USAID/Afghanistan launched its Human Resources and Logistical Support Program in February 2007. The program intended to (1) enhance capacity at selected ministries, (2) identify USAID-constructed buildings that do not meet seismic standards, and (3) provide quality assurance and engineering oversight for mission construction projects. USAID awarded a 5-year, \$72 million contract to International Relief and Development, Inc., to implement the program.

The audit found that the program had made progress in capacity building within selected Afghan ministries, identified defective USAID-built structures, and provided engineering oversight for mission construction projects.

Despite the program's progress in addressing its three main goals, it has serious issues that need to be addressed. The most critical issue is to identify the many defective structures that likely remain among the estimated 1,474 mission-built structures. The total number of defective structures will be determined when the remainder of the preliminary assessments and any subsequent detailed seismic evaluations are completed. The mission anticipates that the contractor will complete 200 seismic evaluations by the end of the contract. In

addition, significant defects in five buildings reported in a prior Office of Inspector General audit report have yet to be corrected. If all defective structures are not identified, and if those already identified are not repaired or rebuilt, a catastrophic earthquake could cause many injuries and deaths.

OIG's report makes 12 recommendations to improve mission implementation of its construction programs and to promote quality assurance.

Office of Inspector General

Overview

The mission of the Office of Inspector General (OIG) is to protect and enhance the integrity of the U.S. Government's approximately \$26.5 billion foreign assistance program administered in over 100 countries by the U.S. Agency for International Development (USAID), the United States African Development Foundation (USADF), the Inter-American Foundation (IAF), and the Millennium Challenge Corporation (MCC).

Who We Are

OIG is an independent oversight organization within USAID that derives its primary authorities and independence from the Inspector General Act of 1978 (IG Act), Public Law 95-452, as amended.

OIG's staff of more than 200 employees—both Foreign Service and Civil Service—includes auditors, certified public accountants, investigators, and program analysts, as well as specialists in management, budget, information technology, and personnel operations. Our fiscal year 2010 appropriation is \$46.5 million.

What We Do

The IG Act authorizes OIG to conduct and supervise audits and investigations involving the programs and operations of USAID, USADF, IAF, and MCC. Auditors, certified public accountants, and program analysts join forces to design and conduct audits and reviews to determine whether agency programs and operations are working as envisioned. Audit activities include performance audits of programs, financial statement audits required under the Chief Financial Officers Act of 1990, Public Law 101-476, as amended, audits related to financial accountability of grantees and contractors, and audits of information technology systems. OIG's criminal investigators are special agents who work diligently to ensure that those who would illegally divert U.S. Government funds are detected. Our special agents are sworn law enforcement officers who have authority to carry firearms, execute search warrants, and make arrests. Investigations of criminal, civil, and administrative violations cover all facets of these worldwide operations.

OIG Priorities

More than 40 percent of OIG's work is mandated by statute or regulation. Other work is performed at our discretion after considering the risks associated with the agencies' programs and assessing potential vulnerabilities in internal controls. OIG's top oversight priorities are:

- Pakistan
- Afghanistan
- HIV/AIDS, malaria, and tuberculosis
- Iraq

- West Bank-Gaza
- Haiti

Joint Work and Partners

Interagency coordination is an important element of the oversight process. OIG is a key participant in the Southwest Asia Joint Planning Group, led by the Department of Defense Office of Inspector General. Other members of the group include representatives from the Office of Inspector General for the Department of State, the Defense Contract Audit Agency, the Government Accountability Office (GAO), and the Special Inspector General for Afghanistan Reconstruction.

USAID/OIG also chairs the Afghanistan-Pakistan Subgroup, which coordinates oversight specifically in those two countries and issues joint audit plans. This subgroup comprises representatives of the Offices of Inspector General for USAID and the Departments of State and Defense, the Government Accountability Office, and the Special Inspector General for Afghanistan Reconstruction. The subgroup acts as the central point for sharing information and coordinating planned audits, reviews, and inspections.

USAID/OIG is working closely with the Office of the Special Representative for Afghanistan and Pakistan (SRAP) and will be producing a multiagency quarterly report on behalf of SRAP, delineating the oversight efforts of all participating organizations.

As a member of the National Procurement Fraud Task Force, OIG assists the Department of Justice in addressing procurement and grant fraud—especially in Iraq, Afghanistan, and Pakistan.

Where We Work

Approximately 70 direct-hire auditor, program analyst, and special agent positions are based overseas, and the remaining workforce is stationed in Washington, DC. OIG has offices in Baghdad, Cairo, Dakar, Kabul, Islamabad, Manila, Pretoria, San Salvador, Tel Aviv, and Washington, DC.

OIG General Information

To learn more about USAID/OIG and its work, visit our Web site at <http://www.usaid.gov/oig> or contact us at 202-712-1150.

Pakistan

Introduction

Background. The primary goals of U.S. assistance to Pakistan are to tangibly improve the lives of the poor and to build support for the Government of Pakistan’s decision to join international efforts to thwart terrorism and reduce terrorist recruiting from within the country. Approximately 79 percent of Pakistani children between the ages of 10 and 16 are out of school, and nearly half the adult population is illiterate. Pakistan’s health indicators are among the worst in the world, and communicable diseases remain a serious concern. Economic progress is considered essential to maintaining and enhancing Pakistan’s political and economic stability.

The U.S. Government reopened the USAID mission in Islamabad in 2002. From FY 2002 through the first quarter of FY 2010, USAID has provided more than \$3.65 billion (including emergency economic assistance) to address needs in education, health, economic growth, and good governance, as well as in earthquake reconstruction assistance. OIG has historically provided oversight of Pakistan from its regional office in Manila, but it now has 5 staff members located directly in Islamabad and intends to increase its footprint in Afghanistan to 14 positions (including Foreign Service National staff) by the end of FY 2010. OIG expects to spend approximately \$3.8 million to provide oversight for Pakistan in FY 2010.

Results—Fiscal Year 2003 to Fiscal Year 2010

| Activities | Pakistan |
|-----------------------------------|---------------|
| Performance audits/reviews | 6 |
| Recommendations made ¹ | 16 |
| Recommendations closed | 13 |
| Recommendations open | 3 |
| Financial audits conducted | 29 |
| Questioned costs sustained | \$2.9 million |
| Investigations opened | 17 |
| Investigations closed | 12 |
| Investigations pending | 5 |
| Referrals for prosecution | 2 |
| Indictments | 0 |
| Convictions | 0 |
| Arrests | 0 |
| Administrative actions | 2 |
| Recoveries and savings | 0 |
| Fraud awareness briefings | 10 |
| Attendees at briefings | 320 |

¹ Performance audits only.

Performance Audits. The chart beginning on page 11 depicts the findings of the 6 audits we have completed and the status of each of the 16 associated recommendations. Starting on page 25 are narrative summaries of the audits, arranged by fiscal year.

OIG’s performance audit work in Pakistan has shown that security conditions have either hindered program accomplishment or had the potential to create implementation problems. Five of the six audits conducted to date raised concerns about security conditions. Our audits also identified trends in inadequate contract oversight or activities management (more than 60 percent) and data integrity or quality issues (50 percent).

Our recent audit of earthquake reconstruction activities in Pakistan revealed some positive results. For example, under its livelihoods activities, the mission established a dairy association to link milk producers to buyers in one district. The dairy association currently has 1,169 members, a majority of whom are female. This success contributed directly to the indicator measuring the percentage change in rural income of a target population, as well as the indicator of the number of rural households benefiting directly from U.S. Government interventions. Furthermore, the work targeted at developing agricultural and tourism value chains has resulted in support of 1,778 new and existing enterprises that are employing more than 8,500 individuals.

As part of its construction implementation efforts, the mission was successful in engaging local communities to participate in building schools and basic health units. The mission’s goals for local community involvement were to promote a sense of ownership in the buildings and to develop capacity so the community could ultimately share responsibility for the maintenance of the buildings. The community was asked at the start of each construction project to participate in the construction process. In response, several communities provided free land for the construction of temporary tent schools while the permanent structures were being completed. Thereafter, the communities were responsible for maintaining the temporary school sites. Community participation was also instrumental in resolving construction issues. For example, in one instance the local community organization was able to provide a subcontractor with additional land to store construction materials.

Financial Audits. By Federal law (31 U.S.C. chapter 75), nonfederal entities that expend \$500,000 or more in Federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A–133. OMB’s requirement applies to audits of States, local governments, and nonprofit organizations based in the United States. Audits conducted pursuant to Circular A–133 are sometimes referred to as “nonfederal audits.”

USAID requires nonprofit organizations not based in the United States who expend \$300,000 or more in Federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in the USAID-produced *Guidelines for Financial Audits Contracted by Foreign Recipients*. These audits are generally called recipient-contracted audits.

Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its for-profit implementing partners. Financial audits conducted under this program accomplish numerous goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States but which have overseas affiliates. USAID contracts to have ACA audits conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis. OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist the services of the Defense Contract Audit Agency (DCAA) to conduct incurred audits on for-profit entities that are not based in the United States. However, DCAA performs all financial audits on U.S.-based, for-profit entities.²

Financial audits performed on USAID's implementing partners in Pakistan are reflected in the chart on page 15. Questioned costs are those costs determined by an audit to not be allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). USAID and the implementer work to resolve questioned costs, but when resolutions are unattainable the audit sustains the costs and USAID seeks reimbursement from the implementer.

OIG has developed relationships with local institutions, such as the Auditor General of Pakistan, to help strengthen the accountability environment. OIG has entered into a memorandum of understanding with the Auditor General that will permit the Auditor General's audits to be accepted as meeting the requirement for annual audits of Pakistani Government entities implementing USAID-funded programs. OIG plans to provide financial audit training to the audit staff.

OIG also uses local accounting firms, approved by our office, to conduct financial audits in Pakistan.

Investigations. OIG's investigative goals are to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of Federal laws, rules, and regulations. If agents uncover probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its

² DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.

interest in pursuing the matter. Investigative findings on administrative matters are referred to Agency management for action. Special agents also conduct fraud awareness briefings to alert participants (employees, contractors, and grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. The chart on page 39 summarizes OIG's investigative work involving Pakistan.

Pakistan Performance Audit Findings and Recommendations

| | No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|---------|-----|--|-------------|--|---|---|---|
| FY 2003 | 1 | Audit of USAID's Bureau for Asia and the Near East Monitoring of the Government of Pakistan's Compliance with the Provisions of USAID Grant No. 391-K-005 (0-000-03-001-F) | 7-Jan-03 | The audit found that USAID did not effectively monitor the Government of Pakistan's compliance with certain provisions of the grant agreement, which was to be used as reimbursement of debt paid and service of debt, to the United States, World Bank, Asian Development Bank, or International Monetary Fund USAID officials had no assurance that the grant funds were used in accordance with the terms of the grant agreement until after the Government of Pakistan had expended the funds | 1 | (1) USAID's Bureau for Asia and the Near East should implement procedures to obtain third-party authorizations necessary to monitor its cash transfer grant awards to the Government of Pakistan and all other foreign government grantees | The Bureau for Asia and the Near East agreed to include provisions in future agreements to require grantees to seek the timely submission of information from third parties that may be necessary for the Agency to monitor grant awards to the Government of Pakistan and other foreign government grantees, as appropriate to U S foreign policy considerations This recommendation is closed |
| | | | | | 2 | (2) USAID's Bureau for Asia and the Near East should implement procedures to monitor its grant agreements on an ongoing basis | The Bureau for Asia and the Near East agreed with the recommendation and stated that it would implement procedures to enforce its cash-transfer grant requirements on an ongoing basis These procedures were issued to Bureau office directors on January 6, 2003 This recommendation is closed |
| | | | | | | 3 | (3) USAID's Bureau for Asia and the Near East should identify and collect the difference between interest remitted by the Government of Pakistan and total interest earned in the Separate Dollar Account associated with USAID Grant Number 391-K-005 |
| FY 2004 | 2 | Risk Assessment of Major Activities Managed by USAID/Pakistan (5-391-04-001-S) | 30-Oct-03 | OIG conducted a risk assessment of education and governance programs, which identified several areas where vulnerability for risk was high: Two education programs were designated as high risk because of the lack of prior experience with USAID grants and because of having numerous U S and Pakistani partners to implement the programs One local governance program was deemed high risk because there were problems with the participating nongovernmental organizations and with the legislative orientation component of the program | | None | |
| FY 2007 | 3 | Audit of Selected Activities Under USAID/Pakistan's Basic Health Program (5-391-07-005-P) | 23-May-07 | Overall, the selected activities under USAID/Pakistan's Basic Health Program generally did not achieve its intended program results Areas where it fell short were in the distribution of family planning products, the promotion of program activities, the percentage of health facilities upgraded, the number of health care providers trained, and the number of grants awarded | 4 | (1) USAID/Pakistan should develop and implement procedures that require its cognizant technical officers (CTOs) to periodically verify that the targets of its Basic Health Program performance indicators are updated to reflect any significant program changes | The mission agreed with the recommendation The mission updated guidelines for CTOs and provided training and refresher courses for CTO personnel This recommendation is closed |
| | | | | | 5 | (2) USAID/Pakistan should develop and implement procedures that require its CTOs to periodically verify the reliability of performance data submitted by implementing partners | The mission agreed with the recommendation The mission updated guidelines and training for CTOs in data quality assessment and improving communication of requirements with implementing partners This recommendation is closed |
| | | | | | | 6 | (3) USAID/Pakistan should conduct data quality assessments of its Basic Health Program performance indicators as required by USAID's Automated Directives System |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response | |
|---------|--------------|--|---------------------|---|---|--|---|
| | | | | 7 | (4) USAID/Pakistan should develop and implement procedures to retain and safeguard CTO work files | The mission agreed with this recommendation and provided additional guidance and training on safeguarding records. This recommendation is closed. | |
| FY 2008 | 4 | Audit of USAID/Pakistan's Education Sector Reform Assistance Program (5-391-08-004-P) | 28-Mar-08 | The audit found that USAID/Pakistan did not monitor the Education Sector Reform Assistance Program effectively, nor did it approve revisions to the program's scope and budget. OIG also found a lack of documentation of a potential conflict of interest. | 8 | (1) USAID/Pakistan should instruct Research Triangle Institute to provide detailed supporting evidence of how the \$16 million programmed for the School Enhancement Program was used, to determine whether the funds were used as intended. | USAID took the steps outlined in the original management decision but could not determine whether the funds were used as intended because RTI did not provide adequate programmatic evidence of the questioned costs. To better address the intent of the audit recommendation, the mission, in coordination with OIG, decided to revise the original management decision to obtain the services of the Defense Contract Audit Agency (DCAA) to conduct an audit of the \$16 million programmed for the school enhancement program. An interagency agreement between USAID and DCAA was established in August 2009 so that DCAA could perform the audit of RTI. DCAA expects to complete this audit by April 2010. The initial recommendation is closed; however, OIG will continue to monitor the status of any followup action. Additional recommendations may be forthcoming from the secondary audit. |
| FY 2009 | 5 | Audit of Critical USAID/Pakistan's Earthquake Reconstruction Activities (5-391-09-001-P) | 25-Nov-08 | The audit found that construction and livelihood activities were experiencing delays, contractor performance reviews were not conducted, performance management plans were not approved, and a data quality assessment was needed. | 9 | (1) USAID/Pakistan's contracting office should identify and document critical contracting processes and provide training to mission personnel responsible for these processes. | The mission agreed with the recommendation. To address the concerns, USAID Pakistan's Office of Acquisition and Assistance, along with the Controller's Office, has designed and implemented steps and procedures that will ensure that funding information is routed to the correct disbursing office. Along with the procedures, training was provided to the acquisitions staff and to the technical offices to clarify roles and responsibilities. This recommendation is closed. |
| | | | | | 10 | (2) USAID/Pakistan should perform a contractor evaluation of Camp Dresser and McKee International, Inc., in accordance with Agency procedures. | The mission has performed a contractor evaluation of Camp Dresser and McKee International, Inc. This recommendation is closed. |
| | | | | | 11 | (3) USAID/Pakistan should modify Mission Order 203.1 to specify that CTOs are responsible for approving implementing partner and contractor performance management plans. | The mission modified Mission Order 203.1 to specify that CTOs are responsible for approving implementing partner and contractor performance management plans. This recommendation is closed. |
| | | | | | 12 | (4) USAID/Pakistan should perform a data quality assessment for the mission's earthquake reconstruction activities by December 31, 2008. | The mission performed a data quality assessment for its earthquake reconstruction activities. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response | |
|-----------------------------|--|-------------|--|--|--|---|
| FY 2010 6 | Audit of USAID/Pakistan's Capacity Building Program for the Federally Administered Tribal Areas Development Program (5-391-10-005-P) | 28-Jan-10 | OIG's audit found that, although the program had provided training, taken initial steps to automate institutions in the Federally Administered Tribal Areas (FATA), and completed some media activities, little had yet been achieved to build the capacity of FATA governmental institutions and nongovernmental organizations (NGOs) responsible for providing services. The program had been in place for nearly 2 years of its 3-year planned lifespan, and it had not made significant progress with two of the program's main goals: improving institutions' capacity to govern and improving the capacity of NGOs to promote good governance. | 13 | (1) USAID/Pakistan should provide immediate written guidance to the contractor and to the FATA governmental institutions to identify what contractual arrangements may be in force to implement the Capacity Building for the Federally Administered Tribal Areas Development Program as the mission transitions to USAID's new implementation strategy. | USAID received approval to proceed with DAI, as an international contractor, in early December and provided guidance to continue with implementation of certain activities through December 2010. This recommendation is closed. |
| | | | | 14 | (2) USAID/Pakistan should develop and issue implementation plans following best practices for (1) the 260 computers (and related equipment) to be assigned to the FATA governmental institutions and for (2) the 140 laptop computers to be transferred to the North-West Frontier Province to ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment. | The contractor has prepared implementation plans for the computers assigned to FATA government agencies, and the mission anticipates receiving FATA Secretariat and FATA Development Authority approval and acceptance of the implementation plan. USAID also plans to correct protocols and procedures for using the laptops for their intended purpose. This recommendation remains open. |
| | | | | 15 | (3) USAID/Pakistan should take immediate steps to confirm the existence of 72 laptop computers. If laptop computers cannot be produced, the mission should issue a bill of collection to the contractor for \$1,400 for each laptop unaccounted for. | USAID/Pakistan staff has photographed and verified 55 of the 72 laptops. The mission anticipates that the majority of the remaining computers will be accounted for; however, if laptop computers cannot be produced, the mission will issue a bill of collection to the FATA Secretariat and the contractor for \$1,400 for each laptop unaccounted for. This recommendation remains open. |
| | | | | 16 | (4) USAID/Pakistan should require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the FATA Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practice of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat. | The contractor has completed the implementation plan for the Planning Commission Pro-Forma 1 (PC-1) database. A draft implementation plan for the GIS system has been prepared and is pending approval from the FATA Secretariat. This recommendation remains open. |
| 6 Performance audits issued | | | | Total recommendations | 16 | |
| | | | | Recommendations open | 3 | |
| | | | | Recommendations open more than 1 year | 0 | |

Pakistan Financial Audit Findings

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs Over \$1 Million |
|-----|--|----------------|-------------|---------------------|------------------|-----------------|---|
| 1 | Financial Audit of USAID/Pakistan's Rupee Trust Fund for Operating Expenses , for Fiscal Years Ended September 30, 2002, 2003, and 2004 | 5-391-06-003-N | 10-Jan-06 | \$432,270 | | | |
| 2 | Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar) , for the Period from November 7, 2003, to June 30, 2004 | 5-391-06-020-R | 11-May-06 | 1,805,257 | 830 | | |
| 3 | Financial Audit of the Rural Support Programmes Network —USAID Grant Rewarding Innovations at the District Level, Agreement No. 391-A-00-03-01015-00, for the Nine Month Period Ended June 30, 2004 | 5-391-06-031-R | 13-Sep-06 | 471,255 | | | |
| 4 | Financial Audit of the Rural Support Programmes Network —USAID Grant Rewarding Innovations at the District Level, Agreement No. 391-A-00-03-01015-00, for the Period Ended June 30, 2005 | 5-391-06-032-R | 26-Sep-06 | 997,500 | | | |
| 5 | Financial Audit of the Developing Non-Bankable Territories for Financial Services Project, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by Khushhali Bank , for the Period from October 1, 2003, to December 31, 2004 | 5-391-06-033-R | 27-Sep-06 | 1,853,591 | | | |
| 6 | Financial Audit of the Four Year Bachelor's Degree Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by Forman Christian College , Lahore, for the Period from August 23, 2004, to June 30, 2005 | 5-391-07-006-R | 12-Jan-07 | 764,472 | | | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs Over \$1 Million |
|-----|--|----------------|-------------|---------------------|------------------|-----------------|---|
| 7 | Financial Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the Pakistan Poverty Alleviation Fund (PPAF) for the Period from October 1, 2003, to June 30, 2005 | 5-391-07-007-R | 12-Jan-07 | 3,194,633 | 1,999,553 | 1,639,230 | Questioned costs were related to ineligible loans by the recipient. |
| 8 | Financial Audit of the Fulbright-USAID Scholarship Program, Grant Agreement No. 391-G-00-04-01035-00, Managed by the United States Educational Foundation in Pakistan , for the Period from September 1, 2004, to August 31, 2005 | 5-391-07-010-R | 22-Feb-07 | 234,757 | | | |
| 9 | Financial Audit of the Aga Khan University Examination Board , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from July 1, 2003, to December 31, 2004 | 5-391-07-014-R | 3-May-07 | 771,546 | | | |
| 10 | Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar) , for the Period from November 7, 2003, to June 30, 2004 | 5-391-07-020-R | 25-Jul-07 | 1,805,257 | 34,804 | | |
| 11 | Financial Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the Pakistan Poverty Alleviation Fund for the Period from July 1, 2005, to June 30, 2006 | 5-391-07-023-R | 22-Aug-07 | 1,160,768 | 951,400 | 921,512 | |
| 12 | Financial Audit of the Four Year Bachelor's Degree Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by Forman Christian College , Lahore (FCC), for the Period from July 1, 2005, to June 30, 2006 | 5-391-07-024-R | 28-Sep-09 | 769,134 | | | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs Over \$1 Million |
|-----|---|----------------|-------------|---------------------|------------------|-----------------|---|
| 13 | Financial Audit of the Project Titled "Technical Assistance and Training to Improve Project and Financial Management of Provincial and District Health and Population Welfare Services in Pakistan," USAID/Pakistan Limited Scope Grant Agreement No. 391-G-00-04-01020-00, Managed by the Options Consultancy Services Limited (Options) - Technical Assistance Management Agency (TAMA) , for the Period from January 1, 2004, to March 31, 2006 | 5-391-08-005-N | 20-Aug-08 | 697,058 | | | |
| 14 | Financial Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by Khushhali Bank , for the Period from January 1, 2005, to December 31, 2006 | 5-391-08-017-R | 15-Apr-08 | 2,662,527 | 82,126 | 66,916 | |
| 15 | Financial Audit of the Aga Khan University - Examination Board (AKU-EB), USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2005, to December 31, 2005 | 5-391-08-027-R | 2-Jul-08 | 902,755 | | | |
| 16 | Closeout Audit of the Enterprise Development Facility Program, Cooperative Agreement No. 391-A-00-03-01010-00, Managed by the Pakistan Poverty Alleviation Fund (PPAF) for the Period from July 1, 2006, to September 30, 2007 | 5-391-08-029-R | 15-Aug-08 | 734,597 | | | |
| 17 | Closeout Audit of the Programs Titled "Rewarding Innovation at the District Level," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01015-00 for the Period from July 1, 2005 to March 31, 2006, and "Establishing Tent Schools and Cash for Work Program," Grant Agreement No. 391-G-00-06-0169-00 for the Period from December 9, 2005, to June 15, 2006; Managed by Rural Support Programmes Network (RSPN) | 5-391-08-030-R | 27-Aug-08 | 2,847,871 | 222,294 | 222,294 | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs Over \$1 Million |
|-----|--|----------------|-------------|---------------------|------------------|-----------------|---|
| 18 | Financial Audit of the Program Title "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar) , for the Period From July 1, 2004, to June 30, 2005 | 5-391-08-032-R | 19-Sep-08 | 5,707,948 | | | |
| 19 | Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar) , for the Period From July 1, 2005, to June 30, 2006 | 5-391-08-034-R | 25-Sep-08 | 5,399,408 | | | |
| 20 | Financial Audit of the Program Titled "Improved Pakistani Family Planning and Reproductive Health Services," USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01016-00, Managed by the Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar) , for the Period From July 1, 2006, to June 30, 2007 | 5-391-08-035-R | 26-Sep-08 | 4,295,177 | | | |
| 21 | Financial Audit of the Interactive Teaching and Learning Program in Pakistan, USAID/Pakistan Cooperative Agreement No. 391-A-00-06-01075-00, Managed by the Children's Resources International Pakistan (G) Limited (CRI Pakistan) , for the Period from March 1, 2006, to June 30, 2007 | 5-391-09-006-R | 15-Dec-08 | 1,557,736 | 763,449 | 158 | |
| 22 | Financial Audit of the Aga Khan University -Examination Board (AKU-EB) , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2006, to December 31, 2006 | 5-391-09-007-R | 29-Apr-09 | 979,040 | | | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs Over \$1 Million |
|-----------|---|----------------|-------------|----------------------|--------------------|--------------------|--|
| 23 | Financial Audit of the College Improvement Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by Forman Christian College, Lahore (FCC) , for the Period from August 23, 2004, to June 30, 2007 | 5-391-09-008-R | 30-Apr-09 | 2,631,254 | 1,163,564 | 56,008 | Questioned costs related to improperly awarded scholarships; excess payments for materials, vendors, and courses; and unallowable fundraising. |
| 24 | Quality Control Review of the Audit Report and Audit Documentation for the Financial Audit Conducted by A.F. Ferguson & Co. of the College Improvement Program, USAID/Pakistan Grant Agreement No. 391-G-00-04-01036-00, Managed by Forman Christian College, Lahore (FCC) , for the Period from August 23, 2004, to June 30, 2007 | 5-391-09-001-Q | 30-Apr-09 | | | | |
| 25 | Financial Audit of USAID/Pakistan's Rupee Trust Fund for Operating Expenses, for Fiscal Years Ended September 30, 2005, and 2006 | 5-391-09-002-N | 11-May-09 | 979,028 | | | |
| 26 | Financial Audit of the Developing Non-Bankable Territories for Financial Services Program, USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01011-00, Managed by Khushhali Bank , for the Period from January 1 to December 31, 2007 | 5-391-09-013-R | 25-Jun-09 | 1,776,113 | | | |
| 27 | Financial Audit of the Budgetary Support, USAID/Pakistan Program Assistance Agreement Nos. 391-005-ES-05 and 391-005-ES-06, Managed by the Ministry of Finance, Government of Pakistan , for the Years Ended June 30, 2006, and 2007 | 5-391-09-006-N | 13-Aug-09 | 400,000,000 | | | |
| 28 | Financial Audit of USAID Funds Managed by Children's Global Network Pakistan (G) Limited (formerly Children's Resources International Pakistan (G) Limited), for the year ended June 30, 2008 | 5-391-10-012-R | 22-Dec-09 | 1,863,786 | 376,942 | 242 | |
| 29 | Closeout Financial Audit of the Aga Khan University - Examination Board (AKU EB) , USAID/Pakistan Cooperative Agreement No. 391-A-00-03-01003-00, for the Period from January 1, 2007 to December 31, 2007 | 5-391-10-020-R | 10-Feb-10 | 1,853,975 | 63,367 | | |
| 29 | Financial Audits Issued | | | \$449,148,713 | \$5,658,329 | \$2,906,360 | |
| | Percentage of Costs Audited | | | | 1.26% | 0.65% | |
| | Alpha designation in report number | | | | | | |
| | N = Nonfederal audit | | | | | | |
| | D = Defense Contract Audit Agency Audit | | | | | | |
| | R = Recipient-contracted Audit | | | | | | |
| | Q = Quality control review | | | | | | |

Planned Performance Audits of USAID/Pakistan-Funded Activities

Fiscal Year 2010

Review of USAID's Internally Displaced Persons Program in Pakistan

The objective of this review is to determine the status of USAID's internally displaced persons (IDP) activities in Pakistan. The review focuses on IDP funding provided from the beginning of FY 2009 through the end of the first quarter of FY 2010. USAID's activities during this period included Food for Peace assistance, Office of Financial Disaster Assistance programs, Office of Transition Initiatives activities, health and education programs in the Federally Administered Tribal Areas (FATA), and a cash transfer to the Government of Pakistan to provide support for 140,000 families displaced by conflict. USAID/OIG is conducting this review concurrently with the State OIG's review of the Department of State's UNHCR IDP program.

Status: An entrance conference was held with the mission on February 9, 2010.

Audit of USAID/Pakistan's Family Advancement for Life and Health Program

In June 2007, USAID/Pakistan launched the 5-year, \$60 million Family Advancement for Life and Health Program. The program aims to increase the availability of information and family planning services for low-income Pakistani women and operates in all four provinces of Pakistan. A nationwide social marketing program for contraception is also a component of the program. The program promotes birth spacing as an essential health intervention to reduce maternal and child mortality. It also increases the use of contraceptive methods among families that want to space births. To remove barriers to contraceptive method use, the project works to increase community understanding of the value of birth spacing for family health and well-being. The program also intends to improve access to quality reproductive health care in the public and private sectors.

This audit will determine whether USAID/Pakistan's Family Advancement for Life and Health Program is providing access to family planning information and services.

Status: An entrance conference was held with the mission on March 30, 2010.

Audit of USAID/Pakistan’s Pre-Service Teacher Education Program

The objective of the Pre-Service Teacher Education Program (Pre-STEP) is to improve the quality of basic education in Pakistan by strengthening teachers’ education and skills. The program will directly benefit new and practicing teachers by helping them gain revised and upgraded teacher qualifications. This \$75 million, 5-year program will enable the nonprofit Education Development Center and the Pre-STEP team to partner with the Ministry of Education, the Higher Education Commission, selected universities, and the district-level colleges responsible for the training and certification of pre-service teachers. By providing intensive support and training in student-centered teaching practices, assistance with curriculum design, development and implementation of a measurable system of teaching standards, and appropriate incentives and accreditation policies, Pre-STEP will assist Pakistan in producing teachers prepared to meet the educational demands of the 21st century.

This audit will determine whether USAID/Pakistan’s Pre-Service Teachers Education Program is helping teachers improve their professional qualifications.

Status: Planned.

Audit of USAID/Pakistan’s Federally Administered Tribal Areas Livelihood Development Program—Implemented by Academy for Educational Development and CHF International

Pakistan’s Federally Administered Tribal Areas (FATA) are semiautonomous areas along the border with Afghanistan, where the Pakistani Government has minimal control. FATA are frequently used by the Taliban for incursions into Afghanistan and for a residence in exile. Citizens there have less access to education, health care, clean water, and sanitation compared with residents in other regions in Pakistan.

The most immediate need in FATA is improvement of livelihoods. The FATA Livelihood Development Program (FATA-LDP) will be a community-based program that will (1) create jobs, increase incomes, and teach employable skills; (2) revitalize community infrastructure and essential services; and (3) support established businesses and develop sustainable new enterprises. The Governments of the United States and Pakistan have determined that this assistance is vital to achieving joint security, political, and development objectives.

USAID/Pakistan intends to provide up to \$300 million over 5 years to meet the program’s objectives. The program will be implemented in two regions of the FATA by the Academy

for Educational Development and by CHF International; each implementer will receive \$150 million in funding.

Status: Planned.

OIG will conduct two separate audits of the program to determine whether the USAID/Pakistan's Federally Administered Tribal Areas Livelihood Development Program, administered by the two implementers, is improving livelihoods in FATA.

Audit of USAID/Pakistan's Primary Healthcare Revitalization, Integration, and Decentralization in Earthquake-Affected (PRIDE) Areas

This project was designed to improve primary health care services for the earthquake-affected populations in the Bagh and Mansehra districts of northern Pakistan. It consisted of three main goals:

- Improve performance of public health services and management systems;
- Improve access to and quality of primary health care services, and
- Promote healthier behaviors and institutionalize community participation in health services.

The audit focuses on the project's goal of improving access to and quality of health care services at the Primary Health Care facilities in these districts.

Status: Audit report is in draft.

Audit of USAID/Pakistan's Links to Learning: Education Support to Pakistan (ED-LINKS) Program

USAID/Pakistan is investing \$170 million to fundamentally reform and revitalize basic education across Pakistan. On October 19, 2007, USAID/Pakistan awarded an \$89.9 million cooperative agreement to American Institutes for Research to support basic education reform at the middle and secondary school system levels in Pakistan. The estimated completion date of the agreement is October 30, 2012. The Links to Learning: Education Support to Pakistan (ED-LINKS) program seeks to improve teacher education and professional development, student learning, and the learning environment. Other goals are to improve governance and strengthen public sector capacity at the federal, provincial, and district levels to sustain quality teaching and learning.

This audit will (1) determine whether USAID/Pakistan's ED-LINKS program achieved intended results and (2) assess the program's impact.

Status: Planned.

Pakistan Performance Audits

Fiscal Year 2010

USAID/Pakistan's Capacity Building Program for the Federally Administered Tribal Areas Development Program (5-391-10-005-P)

| | |
|------------------------------|--|
| Date: | January 28, 2010 |
| Implementing Partner: | Development Alternatives, Inc. |
| Audit Period: | January 2008 to October 2009 |
| Funding: | As of October 31, 2009, USAID had obligated approximately \$19.7 million and expended approximately \$15.5 million |

Background—Summary of Findings

OIG's audit pointed to several implementation difficulties in USAID's capacity building programs in the Federally Administered Tribal Areas (FATA) of Pakistan. The FATA region, which is the most economically depressed area of the country, has a population with a literacy rate estimated at only 17 percent, and 66 percent of people live below the national poverty line.

Local Pakistani institutions responsible for overall governance, health care, education, and public works projects lack the capacity to effectively manage services and development resources. In an attempt to remedy this problem, in 2008 USAID awarded a 3-year, \$46 million contract to Development Alternatives, Inc. (DAI), to increase the capacity of these institutions.

OIG's audit found that, although the program had provided training, taken initial steps to automate FATA institutions, and completed some media activities, little had yet been achieved to build the capacity of FATA governmental institutions and nongovernmental organizations (NGOs) responsible for providing services. The program had been in place for nearly 2 years of its 3-year planned lifespan, and it had not made significant progress with two of the program's main goals: improving institutions' capacity to govern and improving the capacity of NGOs to promote good governance.

Some of the problems could be attributed to the fact that the program had gotten off to a slow start. During the first year, the contractor focused its resources on working out best approaches to designing and implementing activities, building up relationships with FATA institutions, and developing work plans. Also, the deteriorating security situation in Peshawar and the November 2008 assassination of the chief of party of another USAID program delayed progress in the FATA capacity building program.

Moreover, although the program had implemented a few activities to address FATA NGO weaknesses, the few FATA-based NGOs that exist lack the human and financial resources to promote good governance effectively. In most instances, FATA NGOs needed to strengthen their proposal preparation skills, financial management practices, and monitoring and evaluation capabilities before they could start to promote good governance.

Because of a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs, the mission began to rethink its strategy of providing the bulk of its program assistance through U.S.-based implementers such as DAI. As a result, in June 2009 the mission refrained from fully funding a DAI incremental funding request of \$15.3 million and, 4 months later, approved only \$4.7 million in additional funds. In October 2009, the mission asked DAI to consider preparing a 90-day demobilization plan. However, as of mid-November 2009, no final decision had been made as to whether the DAI contract would undertake early demobilization and termination or, if terminated, what program implementation mechanisms would replace the U.S.-based contractor.

In addition to the difficulties associated with the transition to a new implementation strategy, the audit found that overall capacity building in automation had achieved little success, and most of the computer hardware purchased for the program remained boxed up and unused. Furthermore, monitoring and reporting systems for managing development projects—such as a geographic information system that enables project information to be represented on maps and a database system to document the life cycle of development projects—have not been completed, and they may not be completed until June 2010.

Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID/Pakistan provide immediate written guidance to the contractor and to the Federally Administered Tribal Areas governmental institutions to identify what contractual arrangements may be in force to implement the Capacity Building for the Federally Administered Tribal Areas Development Program as the mission transitions to USAID's new implementation strategy.

USAID received approval to proceed with DAI, as an international contractor, in early December and provided guidance to continue with implementation of certain activities through December 2010. This recommendation is closed.

2. That USAID/Pakistan develop and issue implementation plans following best practices for (1) the 260 computers (and related equipment) to be assigned to the Federally Administered Tribal Areas governmental institutions and for (2) the 140 laptop computers to be transferred to the North-West Frontier Province to ensure that the computer equipment will be used for intended purposes and that maximum benefits will be derived from this equipment.

The contractor has prepared implementation plans for the computers assigned to FATA government agencies, and the mission anticipates receiving FATA Secretariat and FATA Development Authority approval and acceptance of the implementation plan. USAID also plans to correct protocols and procedures for using the laptops for their intended purpose. This recommendation remains open.

3. That USAID/Pakistan take immediate steps to confirm the existence of 72 laptop computers. If laptop computers cannot be produced, the mission should issue a bill of collection to the contractor for \$1,400 for each laptop unaccounted for.

USAID/Pakistan staff has photographed and verified 55 of the 72 laptops. The mission anticipates that the majority of the remaining computers will be accounted for; however, if laptop computers cannot be produced, the mission will issue a bill of collection to the FATA Secretariat and the contractor for \$1,400 for each laptop unaccounted for. This recommendation remains open.

4. That USAID/Pakistan require the contractor to develop and put into use detailed implementation plans for both the geographic information system and the planning commission database under development for use by the Federally Administered Tribal Areas Secretariat. The plans should identify roles and responsibilities to be carried out by the contractor and others and should contain best practices of systems development, such as obtaining approval by stakeholders, establishing target dates for completing user manuals, training users and administrators, and preparing for the final handover of day-to-day operations and maintenance to the Secretariat.

The contractor has completed the implementation plan for the Planning Commission Pro-Forma 1 (PC-1) database. A draft implementation plan for the GIS system has been prepared and is pending approval from the FATA Secretariat. This recommendation remains open.

Pakistan Performance Audits

Fiscal Year 2009

USAID/Pakistan's Earthquake Reconstruction Activities (No. 5-391-09-001-P)

| | |
|-------------------------------|--|
| Date: | November 25, 2008 |
| Implementing Partners: | Camp Dresser and Mckee International, Inc. Citizens Network for Foreign Affairs |
| Audit Period: | January 21, 2006, through April 30, 2008 |
| Funding: | As of May 2008, USAID/Pakistan had committed \$202 million to reconstruction activities, obligated \$80 million, and disbursed \$43 million since the program's inception. |

Background—Summary of Findings

On October 8, 2005, residents of northern Pakistan were shaken by a 7.6 magnitude earthquake that claimed more than 74,000 lives, leveled 272,000 buildings (including 585 health care facilities and 15,000 educational buildings), and left more than 3.5 million people homeless. The earthquake zone is located in a mountainous region that includes parts of Pakistan's North-West Frontier Province and Azad Jammu and Kashmir Province. The Islamic Republic of Pakistan (Pakistan) established the Earthquake Reconstruction and Rehabilitation Authority to coordinate and oversee all reconstruction activities. To help Pakistan recover and to provide immediate access to earthquake-affected areas, on January 21, 2006, the U.S. Government (acting through USAID) and the Pakistani Government formalized U.S. Government support for Pakistan's earthquake reconstruction program with the signing of a \$200 million special objective grant agreement.

Among the goals of the project were construction of education and health care facilities and activities intended to help households, industries, and markets recover and expand. The mission met many of its goals and contributed to increasing rural incomes by 38.5 percent. However, at the time of the audit, the mission had not yet completed any of the school or health facility construction activities.

The audit identified five issues affecting the program: a delay in the construction of schools and health clinics, delays in the implementation of livelihoods activities, lack of a contractor performance review, lack of approved performance management plans, and lack of a data quality assessment to validate the accuracy of reported results.

Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID/Pakistan's contracting office identify and document critical contracting processes and provide training to mission personnel responsible for these processes.

The mission agreed with the recommendation. To address the concerns, USAID Pakistan's Office of Acquisition and Assistance, along with the Controller's Office, has designed and implemented steps and procedures that will ensure that funding information is routed to the correct disbursing office. Along with the procedures, training was provided to the acquisitions staff and to the technical offices to clarify roles and responsibilities. This recommendation is closed.

2. That USAID/Pakistan perform a contractor evaluation of Camp Dresser and Mckee International, Inc., in accordance with Agency procedures.

The mission has performed a contractor evaluation of Camp Dresser and Mckee International, Inc. This recommendation is closed.

3. That USAID/Pakistan modify mission order 203.1 to specify that CTOs are responsible for approving implementing partner and contractor performance management plans.

The mission modified Mission Order 203.1 to specify that CTOs are responsible for approving implementing partner and contractor performance management plans. This recommendation is closed.

4. That USAID/Pakistan perform a data quality assessment for the mission's earthquake reconstruction activities by December 31, 2008.

The mission performed a data quality assessment for its earthquake reconstruction activities. This recommendation is closed.

Pakistan Performance Audits

Fiscal Year 2008

USAID/Pakistan's Education Sector Reform Assistance Program (No. 5-391-08-004-P)

| | |
|------------------------------|---|
| Date: | March 28, 2008 |
| Implementing Partner: | Research Triangle Institute |
| Audit Period: | August 28 through September 27, 2007 |
| Funding: | As of September 30, 2007, USAID/Pakistan had obligated and disbursed \$83 million and \$76 million, respectively, toward the activities under the ESRA Program. |

Background—Summary of Findings

USAID/Pakistan designed the 5-year Education Sector Reform Assistance (ESRA) Program in support of the Government of Pakistan's education sector reform action plan. USAID/Pakistan implemented this program through its cooperative agreement with Research Triangle Institute (RTI). The objective of the ESRA Program was to provide knowledge, training, and infrastructure to help officials and citizens develop high-quality education programs for children throughout Pakistan. Specifically, the program's initiatives focused on strengthening the education sector's policy and planning, establishing comprehensive school improvement programs, training teachers and school administrators, increasing youth and adult literacy, and fostering public-private partnerships.

This audit could not determine whether USAID/Pakistan's ESRA Program had achieved intended results because the audit team could not rely on the mission's monitoring of the program or on RTI's reporting of the program's achievements. The mission did not support its approval of RTI's monitoring and evaluation plans and work plans and did not adequately oversee the program through site visits and maintenance of work files. In addition, the mission did not take appropriate followup actions stemming from program evaluations and did not require RTI to adhere to reporting requirements critical to monitoring the program performance. Therefore, the mission could not demonstrate the ESRA Program's accomplishments and attainment of targets. As a result, the audit team could not make an independent assessment of the overall program results and overall impact.

Although the audit could not confirm the validity of the reported achievements, auditors observed that some tasks had been completed. For example, the audit team observed that furniture, computers, books, and other teaching aids had been provided to two different ESRA-funded resource centers. The team also reviewed memorandums of understanding that supported the formation of public-private partnerships. However, these were only a handful of examples of tasks completed under the \$83 million program.

OIG found that the mission needed to strengthen monitoring and management of its ongoing programs, including increasing its level of involvement in the implementation of programs and its approval processes for substantive changes to the program. The audit also identified lack of documentation on a potential conflict of interest situation that was brought to the mission's attention.

Recommendations—Management Decisions

OIG recommended that USAID/Pakistan instruct RTI to provide detailed supporting evidence of how the \$16 million programmed for the ESRA School Enhancement Program was used, to determine whether the funds were used as intended.

USAID took the steps outlined in the original management decision but could not determine whether the funds had been used as intended because RTI did not provide adequate programmatic evidence of the questioned costs. To better address the intent of the audit recommendation, the mission, in coordination with OIG, decided to revise the original management decision to obtain the services of the Defense Contract Audit Agency (DCAA) to conduct an audit of the \$16 million programmed for the school enhancement program.

An interagency agreement between USAID and DCAA was established in August 2009 so that DCAA could perform the audit of RTI. DCAA expects to complete this audit by April 2010.

The initial recommendation is closed; however, OIG will continue to monitor the status of any followup action. Additional recommendations may be forthcoming from the secondary audit.

Pakistan Performance Audits

Fiscal Year 2007

Selected Activities Under USAID/Pakistan's Basic Health Program (No. 5-391-07-005-P)

| | |
|-------------------------------|--|
| Date: | May 23, 2007 |
| Implementing Partners: | Government of Pakistan Greenstar JSI Research and Training Institute, Inc. |
| Audit Period: | October 1, 2005, through September 30, 2006 |
| Funding: | Total program funding for basic health activities was \$168 million. The audit covered two subprograms—the Key Social Marketing (KSM) Program and the Pakistan Initiative for Mothers and Newborns (PAIMAN) Program. As of September 30, 2006, USAID/Pakistan had obligated \$15 million and disbursed \$11 million for the KSM Program and obligated \$23 million and disbursed \$7 million for the PAIMAN Program. |

Background—Summary of Findings

As part of its annual audit plan, the Regional Inspector General/Manila conducted an audit to determine whether selected activities under USAID/Pakistan's Basic Health Program had achieved planned targets for FY 2006. The audit covered two key programs under USAID/Pakistan's umbrella Basic Health Program—the Key Social Marketing (KSM) Program and the Pakistan Initiative for Mothers and Newborns (PAIMAN) Program. For these two programs, OIG selected 13 performance indicators that the mission was using to measure whether activities under the programs were achieving planned targets, which included distribution of family planning products, training for newborn and maternal care, and upgrading of referral facilities.

Neither of the two programs reviewed under USAID/Pakistan's umbrella Basic Health Program achieved all their planned targets for fiscal year 2006, nor were the programs as effective as planned in delivering the intended services to the citizens of Pakistan. Activities that did not achieve targets faced difficulties that included a shortage of oral contraceptives, a program design that did not work as planned, changes in the mission's program direction, inability to procure medical equipment, and complications as a result of the October 2005 earthquake.

Additionally, the audit found that USAID/Pakistan could have better monitored the KSM and PAIMAN programs by updating performance targets, ensuring that reported performance data were accurate and reliable, and maintaining work files of cognizant technical officers (CTOs).

Recommendations—Management Decisions

OIG made four recommendations:

1. That USAID/Pakistan develop and implement procedures that require its CTOs to periodically verify that the targets of its Basic Health Program performance indicators are updated to reflect any significant program changes.

The mission agreed with the recommendation. The mission updated guidelines for CTOs and provided training and refresher courses for CTO personnel. This recommendation is closed.

2. That USAID/Pakistan develop and implement procedures that require its CTOs to periodically verify the reliability of performance data submitted by implementing partners.

The mission agreed with the recommendation. The mission updated guidelines and training for CTOs in data quality assessment and better communication of requirements with implementing partners. This recommendation is closed.

3. That USAID/Pakistan conduct data quality assessments of its Basic Health Program performance indicators as required by USAID's Automated Directives System.

The mission agreed with this recommendation, and an external data quality assessment was completed in September 2007. This recommendation is closed.

4. That USAID/Pakistan develop and implement procedures to retain and safeguard CTO work files.

The mission agreed with this recommendation and provided additional guidance and training on safeguarding records. This recommendation is closed.

Pakistan Performance Audits

Fiscal Year 2004

Risk Assessment of Major Activities Managed by USAID/Pakistan (No. 5-391-04-001-S)

Date: October 30, 2003

Implementing Partners: N/A

Audit Period: N/A

Funding: N/A

Background—Summary of Findings

Since Pakistan became independent in 1947, the United States has contributed billions of dollars in foreign assistance to the country, touching every development sector. However, in 1995, USAID closed its USAID/Pakistan Mission under congressional sanctions resulting from Pakistan's nuclear weapons program. From 1997 to 2002, USAID's assistance to Pakistan consisted of grants to nongovernmental organizations to strengthen civil society and improve the delivery of basic social services. These grants focused primarily on education, health, and community development as Pakistan remained a USAID "nonpresence" country.

However, as a result of the terrorist attacks in the United States on September 11, 2001, and subsequent negotiations with the U.S. Government, the Government of Pakistan committed to resolving a host of longstanding problems and to forge a partnership with the United States to fight terrorism. In response to Pakistan's initiatives, the United States waived its sanctions and resumed a long-term assistance program.

Consequently, the USAID/Pakistan Mission reopened in July 2002 to enable the rapid implementation of development assistance programs in four sectors: education, health, governance, and economic growth. Bilateral strategic objective agreements were signed with the Government of Pakistan for each of these sectors. Total life-of-project funding and obligations at the time of the risk assessment amounted to \$306 million and \$66.5 million.

To prioritize OIG workload and determine what type of audit coverage is appropriate for individual activities being funded and managed by the mission, OIG performed risk assessments of USAID/Pakistan's operations as a whole and of planned activities.

Auditors assessed the overall risk related to USAID/Pakistan's ability to manage assistance activities and considered several key factors, including the significance and sensitivity involved with the mission's program, the management support and control environment,

relevant internal controls, and susceptibility to failure to attain program goals, to noncompliance, and to other irregularities. The assessment concluded that because of the precarious security situation in Pakistan, staffing constraints and challenges, and restrictions on the travel of official Americans outside of the capital city, the overall risk is high that program goals may not be attained. Nevertheless, the mission has taken steps to address this risk:

- Building a program that can be managed largely by Pakistani professionals, both with regard to its own staff as well as the staff of its partner organizations.
- Outsourcing some of its financial review and analysis functions to a local accounting firm and considering local Pakistani organizations to monitor and evaluate USAID program activities.
- Hiring experienced staff within a short period of time.
- Signing four strategic objective grant agreements, totaling \$306 million, with the host government and developing multiyear strategic plans to achieve objectives.
- Planning for the implementation of new assistance programs with increased funding.

Despite the steps the mission has taken, overall risk remains high. This high risk is amplified by (1) the magnitude of the funding being provided to Pakistan, (2) the pressure to design and implement activities in short timeframes, (3) the potential for terror strikes and more evacuations from post, and (4) the risks associated with high reliance on indigenous organizations and management.

Recommendations—Management Decisions

OIG made no recommendations.

Pakistan Performance Audits

Fiscal Year 2003

USAID's Bureau for Asia and the Near East Monitoring of the Government of Pakistan's Compliance With the Provisions of USAID Grant No. 391-K-005 (No. 0-000-03-001-F)

Date: January 7, 2003
Implementing Partners: Government of Pakistan
Audit Period: November 15, 2001, to June 30, 2002
Funding: \$600 million

Background—Summary of Findings

OIG conducted this audit to determine whether USAID's Bureau for Asia and the Near East (ANE) had monitored the grant activity of the Government of Pakistan to ensure its compliance with the terms of Grant No. 391-K-005 (the grant) to be used as reimbursement of debt paid, and service of debt, to the United States, World Bank, Asian Development Bank, or the International Monetary Fund.

The audit determined that USAID/ANE did not design the grant to allow for effective oversight and did not effectively monitor the Government of Pakistan's compliance with certain provisions of the grant. Specifically, OIG has determined that:

- USAID/ANE officials did not secure authorizations from the Government of Pakistan to have loan records released by each of the Government of Pakistan's creditors to corroborate loan payment data provided by the Government of Pakistan.
- USAID/ANE officials did not obtain timely required reports from the Government of Pakistan on the use of the separate dollar funds and the status of the Separate Dollar Account, as required by the agreement.
- USAID transferred grant funds into an interest-bearing account at the Federal Reserve Bank of New York, although article V, section 5.1 of the agreement requires grant funds to be deposited into a non-interest-bearing account. ANE also did not establish procedures to ensure that interest earned was returned to USAID.

These conditions existed largely because ANE did not fully consider its monitoring requirements prior to the grant award or during the Government of Pakistan's use of the award. As a result, ANE officials had no assurance that the grant funds were used in

accordance with the terms of the grant agreement until after the Government of Pakistan had expended the funds.

ANE had not monitored, in a timely way, the Government of Pakistan's compliance with section 5.2(a) of the grant agreement. Section 5.2(a) requires the Government of Pakistan to transfer budget resources to the poverty reduction and social development program in an amount commensurate to the amount of the grant during the fiscal year ended June 2002. According to the Government of Pakistan's own records, submitted to ANE in April 2002, the Government of Pakistan budgeted only about 14 billion rupees (approximately \$230 million, or 38 percent of the grant funds) on these sectors during the fiscal year that ended June 2002.

Despite these issues, OIG found no evidence that grant funds had not been used for debt relief, and the Government of Pakistan was very cooperative in responding to USAID/ANE's varied requests for access to its loan payment information at each of its creditors and to its banking records related to the grant account at the Federal Reserve Bank of New York.

Recommendations—Management Decisions

OIG made three recommendations:

1. That USAID/ANE implement procedures to obtain third-party authorizations necessary to monitor its cash-transfer grant awards to the Government of Pakistan and all other foreign government grantees.

USAID/ANE agreed to include provisions in future agreements to require grantees to seek the timely submission of information from third parties that may be necessary for the Agency to monitor grant awards to the Government of Pakistan and other foreign government grantees, as appropriate to U.S. foreign policy considerations. This recommendation is closed.

2. That USAID/ANE implement procedures to monitor its grant agreements on an ongoing basis.

USAID/ANE agreed with the recommendation and stated that it would implement procedures to enforce its cash-transfer grant requirements on an ongoing basis. These procedures were issued to Bureau office directors on January 6, 2003. This recommendation is closed.

3. That USAID/ANE identify and collect the difference between interest remitted by the Government of Pakistan and total interest earned in the Separate Dollar Account associated with USAID Grant No. 391-K-005.

The mission agreed with the recommendation and collected more than \$600,000 from the Government of Pakistan. This recommendation is closed.

Pakistan Investigative Case Work and Fraud Prevention Briefings

| Case Number | Criminal Law Enforcement Records System | Allegations | Source | Status | Program Integrity (PI) or Employee Integrity (EI) | Savings and Recoveries | Department of Justice Civil/Criminal Actions | Results |
|-------------|---|-------------------------------------|-----------------|--------|---|------------------------|--|---|
| A05080 | LA-H0-08-0172-R | Procurement fraud | Private citizen | Closed | PI | | | |
| A06054 | LA-H0-08-0180-R | Conflict of interest/ethics | Private citizen | Closed | EI | | | |
| L07058 | LA-H0-09-0064-G | Conflict of interest/ethics | OIG audit | Closed | PI | | | NA |
| L07059 | LA-H0-09-0103-R | Conflict of interest/ethics | Private citizen | Closed | PI | | | NA |
| | LA-IS-09-0042-I | Conspiracy | USAID employee | Open | PI | | | NA |
| | LA-IS-09-0119-I | Bribery/gratuity/kickback | USAID employee | Open | PI | | 1 criminal referral | NA |
| | LA-IS-09-0133-I | Computer crimes | Private citizen | Open | PI | | | NA |
| | LA-IS-09-0146-I | Bribery/gratuity/kickback | USAID employee | Open | PI | | | NA |
| | LA-IS-09-0147-I | Bribery/gratuity/kickback | USAID employee | Closed | PI | | | NA |
| | LA-IS-09-0148-I | Bribery/gratuity/kickback | USAID employee | Closed | PI | | | NA |
| | LA-IS-10-0055-P | False Claim/False Statement/Program | USAID employee | Open | PI | | | |
| | LA-MA-08-0040-I | False statement | USAID employee | Closed | EI | | | Referral M/HR |
| | LA-MA-09-0105-G | Conflict of interest/ethics | USAID employee | Closed | EI | | | NA |
| | | False claim | USAID employee | Closed | PI | | 1 criminal referral | DOJ declination |
| | | Procurement fraud | Contractor | Closed | PI | | | Administrative action: verbal admonishment |
| | | Conspiracy | USAID employee | Closed | PI | | | Other administrative sanctions; disqualified from future contract bid (not a debarment) |
| | | Procurement fraud | USAID employee | Closed | PI | | | Audit recovery |

\$0

5 cases open as of 3/31/10

FY 2010 Second Quarter Results

Cumulative Results*

| | | |
|--|---|-----|
| Cases Opened | 1 | 17 |
| Cases Closed | 0 | 12 |
| Department of Justice referrals | 1 | 2 |
| Arrests | 0 | 0 |
| Indictments | 0 | 0 |
| Convictions | 0 | 0 |
| Administrative Actions** | 0 | 2 |
| Fraud Awareness Briefings | 0 | 10 |
| Attendees at Fraud Awareness Briefings | 0 | 320 |

* 2003 to March 29, 2010

** Terminations, suspensions, bills for collection, etc

Afghanistan

Introduction

Background. When the Taliban was forced out of power in 2001, half of Afghanistan’s 31 million people were left in absolute poverty. To rebuild the country and combat terrorism, USAID is working to create economic growth, effective and representative governance, and the human capital base needed to eliminate the conditions that breed extremism.

USAID obligations in Afghanistan for FY 2002 through midyear FY 2010 totaled more than \$9.4 billion, and OIG has provided oversight of these funds since 2002. OIG has historically provided oversight of Afghanistan from its regional office in Manila, but it now has 5 staff members located directly in Kabul and intends to increase its footprint in Afghanistan to 14 positions (including Foreign Service National staff) by the end of FY 2010. Since FY 2003, OIG has expended over \$7.7 million in base appropriations and supplemental funding to oversee USAID’s activities in Afghanistan.

Results—FY 2003 to FY 2010

| Activities | Afghanistan |
|-----------------------------------|----------------|
| Performance audits/reviews | 31 |
| Recommendations made ¹ | 115 |
| Recommendations closed | 101 |
| Recommendations open | 14 |
| Financial audits conducted | 32 |
| Questioned costs sustained | \$97.8 million |
| Investigations opened | 54 |
| Investigations closed | 33 |
| Investigations pending | 21 |
| Referrals for prosecution | 16 |
| Indictments | 8 |
| Convictions | 5 |
| Arrests | 10 |
| Administrative actions | 9 |
| Recoveries and savings | \$149 million |
| Fraud awareness briefings | 18 |
| Attendees at briefings | 483 |

Performance Audits. OIG’s performance audit work in Afghanistan has shown that security conditions have been a primary concern and have hindered program implementation. Of 31 audits conducted to date, 71 percent cited security conditions as a concern. Our performance audit recommendations have also identified inadequacies in the following areas:

¹ Performance audits only.

- Contract oversight or activities management (65 percent)
- Data integrity or quality (23 percent)
- Contractor performance (19 percent)

In several instances, USAID/Afghanistan’s agricultural programs have demonstrated positive results. In its first year of implementation, the Agriculture, Rural Investment and Enterprise Strengthening Program met or exceeded most of its goals. In addition, USAID/Afghanistan’s Alternative Livelihoods Program in the Eastern Region achieved significant results for the majority of its performance indicators.

See page 45 for a chart listing each of our 31 Afghanistan performance audits’ findings and recommendations. This chart shows the status of all of our 115 recommendations. Narrative summaries of the audits, arranged by fiscal year, are provided beginning on page 87.

Financial Audits. By Federal law (31 U.S.C. chapter 75), nonfederal entities that expend \$500,000 or more in Federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A–133. OMB’s requirement applies to audits of States, local governments, and nonprofit organizations based in the United States. Audits conducted pursuant to Circular A–133 are sometimes referred to as “nonfederal audits.”

USAID requires nonprofit organizations not based in the United States who expend \$300,000 or more in Federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in the USAID-produced *Guidelines for Financial Audits Contracted by Foreign Recipients*. These audits are generally called recipient-contracted audits.

Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its for-profit implementing partners. Financial audits conducted under this program accomplish many goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States but which have overseas affiliates. USAID contracts to have ACAs conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis. OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist

the services of the Defense Contract Audit Agency (DCAA) to conduct incurred audits on for-profit entities that are not based in the United States. However, DCAA performs all financial audits on for-profit entities based in the United States.²

Financial audits performed on USAID's implementing partners in Afghanistan are reflected in the chart beginning on page 73. "Questioned costs" are costs determined by an audit to be not allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). USAID and the implementer work to resolve questioned costs, but when resolutions are unattainable the costs become sustained (by the audit), and USAID seeks reimbursement from the implementer.

Investigations. OIG's investigative activities seek to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of Federal laws, rules, and regulations. If agents uncover probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its interest in pursuing the matter. Investigative findings on administrative matters are referred to Agency management for action. Special agents also conduct fraud awareness briefings to alert participants (employees, contractors, and grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. See page 167 for data on investigative case work and fraud prevention briefings and page 171 for summaries of investigations.

² DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.

Afghanistan Performance Audit Findings and Recommendations

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response | |
|---------|--------------|---|---|---|--|---|--|
| FY 2003 | 1 | Risk Assessment of Major Activities Managed by USAID/Afghanistan (5-306-03-001-S) | 11-Mar-03 | The report identified the need for concurrent financial audits of the infrastructure rehabilitation project and a performance audit of the economic governance project | | None | |
| | FY 2004 | 2 | Review of the Road Project Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (RIG Memo 04-002) | 13-Nov-03 | As of November 1, 2003, 222 km of the 389 km Kabul-Kandahar Highway had been paved USAID believed it was on schedule to lay 321 km of new asphalt and repair 68 km of existing road by December 31, 2003 However, the mission needed to have the contractor prepare an implementation plan as required by the contract | 1 | (1) USAID/Afghanistan should require the Louis Berger Group, Inc , to maintain a detailed, updated implementation plan for its REFS activities, including the road project |
| | | 3 | Second Review of the Road Project Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (RIG Memo 04-003) | 31-Mar-04 | The contractor had paved or patched 389 km of the Kabul-Kandahar Highway by December 31, 2003 However, six bridges along the highway were not finished by the end of December 2003 The mission believed the contractor was on schedule to complete the highway by the end of October 2004 as planned | | None |
| | 4 | Risk Assessment of Major Activities Managed by USAID/Afghanistan (5-306-04-002-S) | 15-Apr-04 | The report noted (1) progress was made in addressing vulnerabilities identified in the mission's Federal Managers' Financial Management Integrity Act report and (2) certain high-profile, high-risk projects needed to be audited in fiscal year (FY) 2005 | | None | |
| | 5 | Audit of USAID/Afghanistan's Cashiering Operations (5-306-04-001-F) | 11-May-04 | The audit concluded that the mission managed its cashiering operations efficiently, economically, and in accordance with Agency policies and procedures except that certain internal controls needed to be improved | 2 | (1) USAID/Afghanistan should obtain and keep on file all waivers from the U S Disbursing Officer documenting the disbursement authorities of its cashiers | The mission obtained and now has on file waivers documenting the disbursement authorities of its cashiers This recommendation is closed |
| | | | | | 3 | (2) USAID/Afghanistan should restrict the access rights of the alternate cashier to the mission accounting and control system and review access rights of other Controller Office employees | The mission restricted the access rights of the alternate cashier to the mission accounting and control system and reviewed the access rights of other Controller Office employees This recommendation is closed |
| | | | | | 4 | (3) USAID/Afghanistan should develop an action plan to strengthen the physical security of its cashiering operations | The mission strengthened the physical security of its cashiering operations by constructing a cashier's cage All activities are being performed in the cashier cage This recommendation is closed |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response | |
|---------|---|---|---|--|--|---|---|
| 6 | Audit of the Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program at USAID/Afghanistan (5-306-04-005-P) | 17-Aug-04 | The mission had not approved a work plan for the contractor, and quarterly work plans with expected accomplishments and milestones (required by the contract) had not been done. Without such work plans, OIG could not assess whether the program was on schedule to achieve planned outputs. As a result, the report disclaimed an opinion but acknowledged that some progress had been made. | 5 | (1) USAID/Afghanistan should require BearingPoint to comply with the Sustainable Economic Policy and Institutional Reform Support Program contract by submitting to USAID/Afghanistan for approval quarterly work plan reports that include expected accomplishments and milestones. | In July 2004, the contractor put in place a monitoring system that included updated work plans. Further, USAID/Afghanistan provided a schedule of due dates for the quarterly work plans required under the contract. In addition, USAID/Afghanistan submitted the most recent contractor work plan it had approved in July 2004 and other detailed supporting documentation, which illustrate additional corrective actions to enforce contract requirements. This recommendation is closed. | |
| 7 | Audit of the Kabul to Kandahar Highway Reconstruction Activities Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services Program (5-306-04-006-P) | 21-Sep-04 | The mission (1) generally checked the timeliness of reconstruction activities but did not fully monitor the quality of the road reconstruction, in part because of security restrictions, and (2) did not verify whether the contractor's performance conformed to its contract. | 6 | (1) USAID/Afghanistan should develop a comprehensive monitoring plan to ensure quality, timeliness, and compliance with contract terms, including requiring the contractor to submit a comprehensive quality control and assurance program for USAID approval. | The mission developed the recommended plan, which required site inspection teams to be present at site on each section of road. The teams were also tasked with monitoring the quality control program of the contractor and preparing daily and weekly reports. In addition, the mission's project manager and quality assurance manager were to visit the site on a semimonthly basis. This recommendation is closed. | |
| | | | | 7 | (2) USAID/Afghanistan should perform an analysis of contractor claims to ensure that USAID does not pay for the defective roadwork. | The mission identified deficiencies in the work of the contractor and had the contractor replace the defective work at the contractor's expense. This recommendation is closed. | |
| FY 2005 | 8 | Audit of USAID/Afghanistan's School and Clinic Reconstruction Program (5-306-05-003-P) | 14-Mar-05 | The audit concluded that the school and clinic reconstruction program was not on schedule for a number of reasons, including insufficient oversight and monitoring. Specifically, no more than 328 (62 percent) of the 533 buildings planned to be completed by December 2004 were completed or on schedule to be completed. | 8 | (1) USAID/Afghanistan should finalize an alternative implementation plan with timeframes for the uncompleted portion of its School and Clinic Reconstruction Program. The plan should include measures to strengthen the capabilities of the Transitional Islamic State of Afghanistan's Ministries of Education and Health to contract for and manage construction projects. | USAID finalized an acceptable plan, and this recommendation was closed on January 17, 2006. |
| | | | | 9 | (2) USAID/Afghanistan should require that all its school and clinic implementing partners and their subcontractors use International Relief and Development (IRD) Inc.'s method for calculating the percent of completion for a school or clinic. | USAID notified implementing partners and contractors at a biweekly meeting of the requirement to use the IRD method of calculating the percentage of completion. This IRD method was used during the period July 2004 through February 2005. Subsequently, the IRD method was revised and received concurrence by the implementing partners and contractors. This recommendation is closed. | |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|---------|---|-------------|---|----|--|---|
| | | | | 10 | (3) USAID/Afghanistan should regularly merge the percent of completion data for each school and clinic from IRD's database into its own database to use as a tool for assessing the accuracy of the percentage of completion data reported by implementing partners | Although it was not possible to merge the two systems because of information technology security reasons, each partner and ministry provide data biweekly to USAID that is selectively entered into the USAID master list archives for schools and clinics. This recommendation is closed. |
| 9 | Audit of USAID/Afghanistan's Primary Education Program (5-306-05-005-P) | 14-Apr-05 | The audit found that (1) the Primary Education Program activities had achieved key planned outputs in all but three activities and that (2) the mission had not done contractor performance evaluations. Specifically, textbook distribution was delayed, grade equivalents for accelerated learning students were also delayed, and the female student enrollment target was not achieved. These three activities did not achieve their planned outputs for a number of reasons, including a delay in receiving funding for the program. | 11 | (1) USAID/Afghanistan should obtain from Creative Associates International, Inc., a distribution plan identifying the specific dates and locations for delivering the remaining textbooks in storage to ensure that the correct quantity, grade level, and language of textbooks are distributed to schools. | Creative Associates sent USAID a distribution plan identifying the grade level/language of textbooks and the specific dates and locations for delivering the remaining textbooks in storage. This recommendation is closed. |
| | | | | 12 | (2) USAID/Afghanistan should clearly define the method by which to compute grade equivalents that are to be achieved in the Afghanistan Primary Education Program. If change is needed to meet the planned outputs, the mission should obtain a detailed action plan from Creative Associates International, Inc., showing how the grade equivalent shortfalls will be achieved. | USAID changed the language for the planned outputs so that computing grade equivalents is clearly understood as grades "in process." This recommendation is closed. |
| | | | | 13 | (3) USAID/Afghanistan should reassess the female enrollment target for its Afghanistan Primary Education Program to ensure that performance can be managed toward an obtainable target. | USAID revised the female enrollment to "52.2% of girls participate in learning activities." This recommendation is closed. |
| | | | | 14 | (4) USAID/Afghanistan should conduct a current performance evaluation of Creative Associates International, Inc.'s implementation of the Afghanistan Primary Education Program and prepare a contractor performance report documenting the results of the evaluation. | The cognizant technical officer completed and submitted a contractor performance report for the Afghanistan Primary Education Program on March 27, 2005. This recommendation is closed. |
| FY 2006 | Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (9-306-06-004-P) | 21-Dec-05 | As of September 30, 2005, only \$600,000 of the \$10 million appropriated for FY 2004 had been used to provide shelter materials and basic necessities for displaced persons in Kabul. Additionally, as of September 30, 2005, although Congress had been notified that the funds would be transferred to the Department of State's Bureau of Population, Refugees, and Migration, none of the \$5 million appropriated for FY 2005 had been transferred or spent by the mission. The report included three recommendations to ensure that the remaining balance of approximately \$14.4 million in unspent earmarked funds is used for its intended purpose. | 15 | (1) USAID/Afghanistan should, for the \$9.4 million obligated under the limited scope grant agreement and to fund specifically identified assistance activities for displaced Afghans in and around Kabul: (a) reprogram the balance of approximately \$4.9 million that was subobligated under the participating agency program agreement and (b) subobligate the \$4.4 million not yet subobligated. | USAID deobligated all unexpended funds totaling \$4.9 million and reprogrammed the funds to an Office of Foreign Disaster Assistance contract with CARE to provide shelter to displaced Afghans. USAID also subobligated the remaining \$4.5 million into a participating agency program agreement with the Department of State's Bureau of Population, Refugees, and Migration. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|---|-------------|---|----|--|---|
| | | | | 16 | (2) USAID/Afghanistan should, in coordination with the Department of State's Bureau of Population, Refugees, and Migration, develop a plan to use the balance of approximately \$9.4 million to meet the basic necessities of displaced Afghans in and around Kabul | USAID and the Department of State's Bureau of Population, Refugees, and Migration developed a plan to use the \$9.4 million for shelter related needs and other emergency activities for displaced Afghans in Kabul and other provinces. This recommendation is closed. |
| | | | | 17 | (3) USAID/Afghanistan should inform Congress, as appropriate, of its plans to use the \$5 million earmarked in fiscal year 2005 for assistance to displaced Afghans and use these funds for this assistance, as Congress intended. | Through a revised December 2005 report, dated May 15, 2006, USAID notified Congress of its plans to use the \$5 million. This recommendation is closed. |
| 11 | Audit of USAID/Afghanistan's Cashiering Operations (5-306-06-001-P) | 10-Jan-06 | The cashiers properly accounted for their imprest funds | | None | |
| 12 | Audit of USAID/Afghanistan's Rebuilding Agricultural Markets Program (5-306-06-002-P) | 28-Mar-06 | The audit found that five of six activities were on schedule to achieve planned outputs. The sixth activity's planned output—rehabilitating 555 km of farm-to-market roads—was not achieved for a number of reasons, including poor security and poor subcontractor performance. Additionally, USAID/Afghanistan did not properly administer its Rebuilding Agricultural Markets Program (RAMP) contract. | 18 | (1) USAID/Afghanistan should obtain updated work plans from the contractor required by the contract. | USAID/Afghanistan obtained an updated FY 2006 work plan and an updated life-of-project work plan from the contractor implementing RAMP. Additionally, the mission had incorporated these updated plans into its RAMP contract through a contract modification. This recommendation is closed. |
| | | | | 19 | (2) USAID/Afghanistan should determine whether the added work under the original contract should have been approved and modified within the original contract prior to implementation, in accordance with Federal Acquisition Regulation, part 43, on contract modifications. If so, USAID/Afghanistan's contracting officer should modify the contract accordingly. | USAID/Afghanistan determined that a modification to the RAMP contract was not required to approve activities subsequently added to the activities listed in the original contract for three principal reasons. First, since RAMP implementation is accomplished through work orders, the activities that were added were also done through work orders. Second, the mission asserted that the added activities fell within or were consistent with the objectives of the RAMP contract. Third, the mission noted that updated work plans (obtained and incorporated into the RAMP contract as discussed in the preceding paragraph) included the added activities. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|---|-------------|---|----|---|--|
| | | | | 20 | (3) USAID/Afghanistan should implement an action plan to require its staff to complete and issue contractor performance reports to comply with Automated Directives System 302.5.9 | USAID/Afghanistan issued mission notice 2006-05 which established procedures and timelines to ensure that contractor performance reports are continually updated and current. Additionally, the mission completed a performance evaluation of the RAMP contractor. This recommendation is closed. |
| 13 | Audit of USAID/Afghanistan's Reconstruction of the Kandahar–Herat Highway Under the Rehabilitation of Economic Facilities and Services (REFS) Program (5-306-06-005-P) | 18-May-06 | Kandahar–Herat Highway reconstruction activities were on schedule to achieve planned outputs, except for 24 km of roadwork. The remaining 24 km were not completed by December 31, 2005, because of funding shortages, which the mission could have addressed sooner. | 21 | (1) USAID/Afghanistan should develop and implement procedures with milestones to document, track, and promptly resolve significant issues that could affect the progress of its reconstruction activities. | The mission developed and was implementing procedures to document, track, and promptly resolve significant issues uncovered in its own monitoring efforts that could affect the progress of its reconstruction activities. This recommendation is closed. |
| 14 | Audit of USAID/Afghanistan's Rural Expansion of Afghanistan's Community–Based Healthcare (REACH) Program (5-306-06-007-P) | 16-Aug-06 | Nineteen of twenty selected activities achieved planned outputs. REACH awarded \$56.2 million to 28 grantees who were providing basic healthcare in 14 provinces. The program distributed \$4.7 million of essential drugs and trained 568 midwives and completed a number of activities to help improve capacity in the Afghan Public Health Ministry. | | None | |
| 15 | Audit of USAID/Afghanistan's School and Health Clinic Reconstruction Activities (5-306-06-008-P) | 18-Aug-06 | The mission and its implementing partners were on schedule to complete 705 of 776 school and clinics to be constructed or refurbished under the Schools and Clinics Construction and Refurbishment Program, and 511 of the 705 buildings had been turned over to the Afghan Government. However, completion has taken longer than anticipated because the mission did not take timely action to resolve issues on program implementation. | 22 | (1) USAID/Afghanistan should make a final decision on what to do with the 13 buildings that the Louis Berger Group, Inc., did not complete and take any actions necessary to carry out its decision. | USAID/Afghanistan management concluded that security conditions still prevented reconstruction of the 13 schools and health clinics that the Louis Berger Group, Inc. (LBGI), could not complete. Consequently, the mission director signed an action memorandum formally canceling work on the 13 buildings. This recommendation is closed. |
| | | | | 23 | (2) USAID/Afghanistan should immediately modify the scope of work in its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the two buildings not completed by United Methodist Committee on Relief. | USAID/Afghanistan management modified its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the two buildings not completed by United Methodist Committee on Relief. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|---------|--|-------------|--|----|---|--|
| FY 2007 | Audit of USAID/Afghanistan's Alternative Livelihoods Program-Eastern Region (5-306-07-002-P) | 13-Feb-07 | In fiscal year 2006, the Alternative Livelihoods Program-Eastern Region (ALP/E) achieved significant results for 13 of 15 performance indicators used by USAID/Afghanistan to measure whether the program was achieving planned results. Achievements that supported ALP/E's objective of accelerating licit economic growth and business activity included 27,534 ha devoted to licit agricultural production and 98,154 farmers trained in agricultural practices. Achievements that supported ALP/E's objective of providing an immediate alternative source of income to those who depend on the opium economy included 19,698 Afghans paid \$4,209,670 through cash-for-work projects. Two performance indicators could not be evaluated because sufficient information on actual accomplishments was not available or the related program activities were not fully implemented. | 24 | (1) USAID/Afghanistan should require Development Alternatives, Inc., to replace the performance indicator on the number of Afghans receiving agricultural credit through ALP/E with a performance indicator that reflects the program's shift from funding microfinance loans to facilitating the issuance of such loans. | On January 30, 2007, the mission issued a technical directive to Development Alternatives, Inc., directing that the indicator "Afghans receiving credit through ALP" be removed from the performance management plan and be replaced by "number of loan agreements facilitated." This recommendation is closed. |
| | | | | 25 | (2) USAID/Afghanistan should update its performance target for kilometers of rural roads repaired in poppy regions to a realistic level that reflects the additional \$11 million of funding for this activity. | Development Alternatives, Inc., updated its FY 2006 target for kilometers of rural roads repaired in poppy regions. This recommendation is closed. |
| | | | | 26 | (3) USAID/Afghanistan should develop a plan of action to ensure that performance targets are updated for future significant program changes. | On January 30, 2007, the mission issued a technical directive to Development Alternatives, Inc., indicating that all required performance targets will be reviewed with the cognizant technical officer (CTO) on a monthly basis, with revisions made as appropriate. This recommendation is closed. |
| | | | | 27 | (4) USAID/Afghanistan should develop mission-specific procedures requiring that site visits of program activities be documented and maintained in CTO files. | On December 17, 2006, the mission issued Mission Notice No. 2006-106, Roles and Responsibilities of CTOs. This notice was issued (1) to require all CTOs to document and keep files of site visit reports; (2) to remind COs/agreement officers, CTOs, and the supervisors of CTOs, about the interrelated nature of CTO performance and the monitoring thereof in the context of how designated CTOs perform their CTO duties and responsibilities as stated in their CTO designation letter; and (3) to encourage joint site visits by CTOs together with representatives from other offices who are involved in monitoring the performance and financial status of USAID/Afghanistan projects. This recommendation is closed. |
| 17 | Audit of Critical Power Sector Activities Under USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) Program (5-306-07-004-P) | 21-May-07 | Under the REFS Program, one critical activity had been achieved, whereas two similar activities were significantly behind schedule because of security problems. Although the activity that was achieved delivered 16.5 MW of reliable hydroelectric power, delays in the other two activities have delayed the delivery of 35 MW of reliable hydroelectric power to about 2 million Afghan people in southern Afghanistan. | | None | |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--|-------------|---|----|--|--|
| 18 | Audit of USAID/Afghanistan's Urban Water and Sanitation Program (5-306-07-006-P) | 7-Jun-07 | Planned contract deliverables were generally being achieved under USAID/Afghanistan's Urban Water and Sanitation Project. However, long-term sustainability of the overall project was questionable and contract administration problems were found between the mission and Camp Dresser McKee, Inc., the contractor hired to implement the project. | 28 | (1) USAID/Afghanistan should conduct an assessment at the Gardez and Ghazni sites where a water distribution system was installed; make a determination as to the extent that further training is required; and provide training, as necessary, for the Ministry of Urban Development and Housing operators to operate and maintain the water systems at a sustainable level. | The mission agreed with the recommendation USAID/Afghanistan's monitoring contractor, International Relief & Development, Inc., conducted an assessment of the operators' training needs and provided the necessary practical and in-class training to 10 operators and 16 operator trainees of the water supply projects in Ghazni, Gardez, and Chil Dukhtaran from November 10 to 30, 2007. This recommendation is closed. |
| | | | | 29 | (2) USAID/Afghanistan should assist the relevant Government of Afghanistan ministries with water and sanitation responsibilities in determining the appropriate user fees to be charged to water system clients and how to increase usage of water system services by potential clients. | The mission planned to have an assessment conducted and then provide technical assistance to the ministries as needed by the end of April 2008. This recommendation is closed. |
| | | | | 30 | (3) USAID/Afghanistan should establish a practice that all incoming CTOs attend an incoming briefing given by the contracts office to reinforce the knowledge of applicable contractual delegated authorities and limitations for the duration of their stay in Afghanistan. | The mission institutionalized a practice and developed new procedures to brief all incoming CTOs. This recommendation is closed. |
| | | | | 31 | (4) USAID/Afghanistan should require that CTOs at least quarterly, as applicable, fulfill contract administration responsibilities by confirming and documenting that contractors are complying with specific contract reporting requirements. | The mission planned to develop a new mission order by May 2008 to provide for quarterly reporting and certifications by CTOs that applicable monitoring duties were performed. This recommendation is closed. |
| | | | | 32 | (5) USAID/Afghanistan should strengthen its system for controlling, projecting, and monitoring contract costs. It should stipulate the specifics of the type of financial reporting information that is required for quarterly and annual reports and require mission technical offices to use cumulative expenditures against total budget estimated costs by line item and obligations as a management tool for purposes of managing the contractor's performance. | The mission developed new procedures for controlling, projecting, and monitoring contractor costs. This recommendation is closed. |
| 19 | Audit of Selected Follow-on Activities under USAID/Afghanistan's Economic Program (5-306-07-009-P) | 31-Aug-07 | Selected follow-on activities, agreed to between USAID and the Government of Afghanistan under USAID/Afghanistan's economic program, were achieving results. However, USAID/Afghanistan had not established approved indicators or targets to measure its progress against. Therefore, the audit could not measure the activity accomplishments against planned interim goals or targets. | 33 | (1) USAID/Afghanistan should reevaluate the work plan for Project Implementation Letter 6-EG and decide whether to allow BearingPoint, Inc., to continue with the plan to assign a human resources adviser to the Ministry of Finance for the duration of the contract or to revise the plan. | The mission decided to assign a human resources adviser to the Ministry of Finance, and that person started in June 2007. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response | |
|---------|--------------|--|---------------------|--|---|---|--|
| | | | | 34 | (2) USAID/Afghanistan should require BearingPoint, Inc , to review, reassess, and update the work plans for the six project implementation letters issued under the Economic Governance and Private Sector Strengthening Program, and to include agreed-upon performance indicators and set targets that will be used to measure the program's intended results | The mission and BearingPoint developed a combined work plan for all implementation letters, which included indicators and targets This recommendation is closed | |
| FY 2008 | 20 | Audit of USAID/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program (5-306-08-001-P) | 22-Jan-08 | In its first year, the Agriculture, Rural Investment and Enterprise Strengthening (ARIES) program achieved or exceeded most of its goals and helped make a significant impact in expanding Afghanistan's licit rural economy by creating 62,674 jobs Despite its achievements, ARIES could have been more successful with implementing small and medium enterprise (SME) loan segment activities and investment and finance cooperatives (IFCs) Additionally, the mission could improve the implementation and management of the ARIES program in four areas | 35 | (1) USAID/Afghanistan should require the Academy for Educational Development (AED) to make clear to its partners that the ARIES program is to be implemented primarily in Alternative Development Program (ADP) regions and dovetail with regional ADP priorities as required by the cooperative agreement | The mission informed AED that it should emphasize to its partners the importance of reports and publications that accurately reflect the priority given to ADP regions and document how they are dovetailing with the ADP as required by the cooperative agreement This recommendation is closed |
| | | | | 36 | (2) USAID/Afghanistan should work with AED to establish formal goals in its work plan for implementing ARIES program activities in Alternative Development Program regions for the remaining 2 years of the cooperative agreement | The ARIES second-year work plan submitted to and subsequently approved by the mission clearly describes the provinces where the program creates new financial service outlets, supports existing outlets, and disburses micro and small and medium enterprise (SME) loans All of the provinces referenced in the work plan are considered part of the ARIES target regions as described in the cooperative agreement and fall within the ADP priority areas This recommendation is closed | |
| | | | | 37 | (3) USAID/Afghanistan should direct AED to communicate success stories related to shifting opium poppy workers into licit livelihoods as a result of ARIES program loans in ADP regions | The mission has directed AED to submit a minimum of two stories per month This recommendation is closed | |
| | | | | 38 | (4) USAID/Afghanistan should direct AED to revise its ARIES program performance monitoring plan to include appropriate performance indicators and targets that measure both micro and SME finance activities by region and by partner and report those results in its quarterly reports to USAID/Afghanistan | The revised FY 2008 performance monitoring plan, which has been submitted for approval to the mission, includes specific targets in ADP regions for activities in the remaining 2 years of the cooperative agreement and will measure both micro and SME finance activities These results will also be submitted on a quarterly basis This recommendation is closed | |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|---|-------------|--|----|--|---|
| | | | | 39 | (5) USAID/Afghanistan should direct AED to ensure that the World Council of Credit Unions (WOCCU) establishes and maintains appropriate systems and processes for recording, reporting, and internal monitoring of operating activities of its investment and finance cooperatives (IFCs) as required by the ARIES program work plan | A strategic decision was made in November 2006 to begin installing Micro Banker, an integrated accounting software program, in each IFC 6 months after the startup of operations to increase WOCCU's monitoring and reporting and to make it easier to consolidate information across different IFCs. This strategy is based on WOCCU's previous experience in Uzbekistan, which shows that training IFC staff on a manual accounting system is a necessary prerequisite to introducing an integrated accounting software program. This recommendation is closed. |
| | | | | 40 | (6) USAID/Afghanistan should direct AED to ensure that the WOCCU implements an integrated accounting system at each of its IFCs as required by its subagreement | In accordance with mission suggestions, WOCCU planned to adopt the International Financial Reporting Standard (IFRS) for the IFCs and install Micro Banker, an integrated accounting software program, in each IFC 6 months after the startup of operations. This recommendation is closed. |
| 21 | Audit of USAID/Afghanistan's Alternative Development Program--Southern Region (5-306-08-003-P) | 17-Mar-08 | USAID/Afghanistan's Alternative Development Program/South (ADP/S) achieved some, but not all, of its planned results. However, despite its progress, opium production in the southern provinces continued to rise, diminishing the intended overall impact of the ADP/S program. This increase resulted from a rise in insurgency activities preventing the mission from delivering alternative livelihoods to key poppy-growing areas, the ineffectiveness and corruption in the eradication process, and the lack of rule of law and criminal penalties for growing poppies. | 41 | (1) USAID/Afghanistan should develop procedures setting requirements to ensure timely review and approval of contractor work plans. | On March 12, 2009, a mission notice was issued, that provides the necessary guidelines to ensure CTO adhere to annual work plan submittal and approval requirements. This recommendation is closed. |
| 22 | Audit of USAID/Afghanistan's Small and Medium Enterprise Development Activity (5-306-08-006-P) | 23-Jun-08 | It could not be determined whether 11 of the 18 performance indicators used to measure the progress of the project met planned results during the first year of implementation. The audit determined that the contractor's performance data for these 11 performance indicators were not reliable and therefore not useful in managing for results or credible for reporting. For the remaining seven indicators, the audit determined that the project partially met five indicators' regional performance targets exceeded one indicator's nationwide target, and partially met one indicator's nationwide target. | 42 | (1) USAID/Afghanistan should require the CTO for the Afghanistan Small and Medium Enterprise Development Activity to work with Development Alternatives, Inc., in refining the project database to eliminate duplicate records and to ensure that the data are reliable. | On May 21, 2008, a mission-hired expert determined that the contractor had effectively corrected the duplication errors and developed a productive and comprehensive method of reducing duplications and identifying those that occur. This recommendation is closed. |
| | | | | 43 | (2) USAID/Afghanistan should require Development Alternatives, Inc., to develop a plan of action that will implement the Web-based management information system by May 31, 2008. This plan would include procedures on eliminating duplicate records and in ensuring that the data in this system are reliable. | The mission and contractor worked together to develop the recommended plan of action, which included training for monitoring and evaluation staff, creation of a user's manual, and planned visits to regional offices for data verification and oversight. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|---|-------------|---|----|--|---|
| | | | | 44 | (3) USAID/Afghanistan should develop and implement a plan of action that will require the CTO for the Afghanistan Small and Medium Enterprise Development Activity to provide technical direction to Development Alternatives, Inc. , in updating the performance management plan; redefining the performance indicators and targets; and redirecting their resources to areas where progress can make more of an impact | The mission has developed the recommended plan of action to modify the contract to better align the scope of work with the current situation in Afghanistan and to develop a new performance monitoring plan. The new plan will be discussed with the Office of Program and Project Development to ensure consistent monitoring and evaluation of the activity. This recommendation is closed. |
| | | | | 45 | (4) USAID/Afghanistan's CTO for the Afghanistan Small and Medium Enterprise Development Activity should formally approve the updated performance management plan resulting from recommendation 3. | The mission's CTO formally approved the updated performance monitoring plan and the recommendation was closed in October 2008. |
| 23 | Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program (5-306-08-009-P) | 8-Aug-08 | Chemonics International, Inc. , reported results for all eight indicators for the first year of the program. However, the audit identified that for two of the eight indicators, reported results fell considerably short of intended results. Targets had not been established for the other six indicators, making it difficult to tell how well the project was proceeding. In addition, Chemonics did not have documentation to adequately support reported results for six indicators. In two of the six cases, the support was inadequate, while in four cases there was no support at all. For example, Chemonics had inadequate support for the reported result that more than 1,700 individuals had received short-term agricultural training and no support for the reported result that project activities had generated an economic value in excess of \$59 million. In addition, the audit found that a major program activity—the Mazar foods initiative—was behind schedule. This \$40 million initiative to cultivate 10,000 hectares for a commercial farm was not finalized in time to take advantage of the summer planting season as initially planned. | 46 | (1) The USAID/Afghanistan CTO should prepare an implementation plan identifying the critical tasks needed to implement the Mazar foods initiative. This implementation plan should identify all tasks that are behind schedule and show how the mission is going to address the delay. Further, the mission should develop a process for periodically updating the implementation plan. | The mission agreed with the recommendation. Prior to the issuance of the audit, the Mazar Foods Initiative had an implementation plan in place. The mission stated that any outstanding delays were associated with obtaining an Overseas Private Investment Corporation loan and that it would direct Chemonics to resubmit an updated implementation plan when program plans change. This recommendation is closed. |
| | | | | 47 | (2) USAID/Afghanistan should require its environmental officer to provide annual training to CTO and require mission personnel to comply with the environmental regulations outlined in Mission Order 04-14 and USAID's Automated Directives System 204. | The mission agreed with the recommendation and has completed written procedures. This recommendation is closed. |
| | | | | 48 | (3) USAID/Afghanistan should revise its mission order to be consistent with USAID's Automated Directives System 204 defining CTO responsibilities for monitoring compliance with environmental regulations. | The mission has completed written procedures. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|--|---|
| | | | | 49 (4) USAID/Afghanistan should obtain a written legal decision from its general counsel on how to proceed for completed and in-process projects where environmental regulations were not followed | The mission consulted with the USAID/Afghanistan Legal Advisor, the USAID Office of the General Counsel, and the USAID Agency Environmental Coordinator. In accordance with 22 CFR 216.3(a)(7), USAID stated that it would require the contractor to conduct the environmental review of the ongoing or completed subprojects or aspects thereof which was required by the Initial Environmental Evaluation for the SOAG. USAID would also require the contractor to take any mitigating measures developed as a result of the review. This recommendation is closed. |
| | | | | 50 (5) USAID/Afghanistan should prepare procedures requiring review of construction design plans and provide quality assurance oversight by the Office of Infrastructure, Engineering and Energy | The mission has completed the written procedures. This recommendation is closed. |
| | | | | 51 (6) USAID/Afghanistan should require that engineers work with Chemonics to take corrective action on each of the construction defects and to require these engineers to be part of the final inspection | USAID instructed Chemonics International to demolish/reconstruct the Parwan, Panjshir, and Kunduz buildings and to demolish/rehabilitate the Mazar and Heart Buildings, and Chemonics agreed to comply with the contracting officer's instructions. Chemonics International will collaborate with USAID in the reconstruction and rehabilitation of the buildings. USAID has issued a mission directive to ensure that engineers are involved so that the projects meet all building requirements. This recommendation is closed. |
| | | | | 52 (7) USAID/Afghanistan should reevaluate Chemonics' March 2008 revised marking and branding plan and make a determination whether to approve any exceptions to marking requirements included in the plan | The mission agreed with the recommendation. A revised marking and branding plan was approved by the contracting officer, and the contract was modified on October 13, 2008. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|----|---|---|
| | | | | 53 | (8) USAID/Afghanistan should develop procedures requiring CTO to verify and document, as part of their site visits, that items purchased or built with USAID funds are properly marked | The mission agreed with the recommendation and issued a May 12, 2008, mission order that addresses CTO certification of contractor/recipient compliance with delivery requirements under their respective awards. Marking of the items purchased or built with USAID funds is part of the delivery requirement. This recommendation is closed. |
| | | | | 54 | (9) USAID/Afghanistan's CTO should issue a technical directive that requires Chemonics to define the roles and responsibilities of the monitoring and evaluation staff, to include a system to ensure that the program's data is accurate and easily accessible | The mission agreed with the recommendation and had Chemonics/ASAP submit a revised PMP. The revision was sent to the CTO on July 17, 2008. The mission did not believe that an additional technical directive was necessary since the response to the recommendation was included in the July 17, 2008, PMP. This recommendation is closed. |
| | | | | 55 | (10) USAID/Afghanistan's CTO should require Chemonics to perform a data quality assessment (DQA) before the issuance of the next annual report | A data quality assessment was completed by the Alternative Development and Agriculture (ADAG) Monitoring and Evaluation Staff of the Accelerating Sustainable Agriculture Program (ASAP), jointly undertaken with Chemonics. The data quality assessment checklists for the program's 21 performance indicators were approved by the mission in November 2008. The mission has determined that, in order to increase the level of monitoring and evaluation of all ADAG programs, an annual program statement will be issued. An independent third party will be made available to provide monitoring, evaluation, and DQAs for various projects, which will include random sampling for onsite, field verifications of activity data indicators, and reported outcomes. This recommendation is closed. |
| | | | | 56 | (11) USAID/Afghanistan should determine the allowability and collect as appropriate \$37,573 for commodities purchased by Chemonics without prior written approval from the mission | The mission agreed with the recommendation. It obtained a letter from Chemonics dated May 31, 2008, stating that the contractor would credit all program income, including the questioned amount, to the contract. The mission stated that it would evaluate new invoices to ensure Chemonics' compliance. In addition, Chemonics has established separate bank account and separate expense books to account for program income. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--|-------------|---|----|--|--|
| | | | | 57 | (12) USAID/Afghanistan's CTO should issue a technical directive to require Chemonics to identify in its invoices costs associated with restricted commodities | The mission agreed with the recommendation. In a CTO meeting with ASAP on July 11, 2008, ASAP agreed to begin identifying restricted commodity purchases in its monthly invoices. USAID stated that it would verify compliance with the requirement in Chemonics' July 2008 invoice. Since ASAP agreed to the monthly invoice changes as recommended, the mission felt that a separate technical directive was not necessary. This recommendation is closed. |
| | | | | 58 | (13) USAID/Afghanistan should direct Chemonics to reduce future billings to USAID by \$129,731 for program income collected as of March 31, 2008, and comply with the terms of the contract for any income received after March 31, 2008. | USAID sustained the total \$129,731 in questioned program income and has recovered the costs from Chemonics. This recommendation is closed. |
| | | | | 59 | (14) USAID/Afghanistan should develop procedures requiring the Program and Project Development Office to review performance management plans of contractors and grantees for compliance with USAID's Automated Directives System 203 prior to approval by the CTO. | The mission has completed written procedures. This recommendation is closed. |
| | | | | 60 | (15) USAID/Afghanistan should determine the nature, format, and timing of the reports required to effectively monitor contract performance and align the contract reporting requirements to these expectations. | The mission agreed with the recommendation. The contracting officer and CTO have already addressed these concerns in a draft modification to the Accelerating Sustainable Agriculture Program contract. Thus, a management decision was made in August 2008. This recommendation is closed. |
| 24 | Audit of USAID/Afghanistan's Capacity Development Program (5-306-08-012-P) | 30-Sep-08 | There was a lack of evidence to demonstrate that this program was on track to achieve planned results. The program lacked key deliverables necessary for effective implementation, monitoring, and reporting of program activities and results. Detailed work plans outlining what the contractor planned to accomplish and results monitoring plans with performance indicators, targets, and periodic reporting against these targets were not in place. Given these shortcomings and considering that the contract with BearingPoint, Inc. (contractor), was signed only in February 2007, the audit found that it was too early to assess the overall impact of this program. | 61 | (1) USAID/Afghanistan should direct the contractor to develop a detailed work plan to align with expected results for fiscal year 2009 and require the contractor to submit the work plan 15 days prior to the start of the fiscal year as required by the contract. | The mission stated that on September 1, 2008, it had directed the contractor to submit the draft work plan 15 days prior to the start date of FY 2009 as required by the contract. The FY 2009 draft work plan was submitted by the contractor on September 14, 2008. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|---------|--|-------------|---|----|---|---|
| | | | | 62 | (2) USAID/Afghanistan should direct the contractor to put in place an approved results monitoring plan to measure the progress and results of the activities detailed in the work plan addressed in recommendation 1 | The mission approved the performance management plan (2008–12) on September 6, 2008, and the mission has put in place an approved results monitoring plan for FY 2009 to measure the progress. This recommendation is closed. |
| | | | | 63 | (3) USAID/Afghanistan should reevaluate the appropriateness of funding salaries for approximately 460 of Afghanistan's Ministry of Education (MOE) employees through the Capacity Development Program. If the mission determines that funding the Ministry's employees does not directly contribute to the Capacity Development Program, the estimated salary payments of \$11.1 million should not be funded by this contract. | In the short term, USAID believes that supporting these technical advisers in the MOE in combination with an intensive training component does have merit and does contribute to the core capacity-building objective of this contract. The mission and contractor are taking various steps to evaluate, implement, and improve training. This recommendation was closed when the audit report was issued. |
| | | | | 64 | (4) USAID/Afghanistan should take immediate action to approve and ensure implementation of a branding implementation and marking plan under its Capacity Development Program. | The mission approved the branding implementation and marking plan under its Capacity Development Program on September 17, 2008. Therefore, this recommendation was closed by the time the audit report was issued. |
| FY 2009 | 25 Audit of USAID/Afghanistan's Higher Education Project (5-306-09-002-P) | 4-Dec-08 | The project partially achieved planned results toward (1) transforming the instruction of teaching and learning in faculties and departments of education and (2) institutionalizing structures and systems to support and sustain high quality instruction and professionalism. The implementer measured its progress against nine objectives for which it met its target objectives for three, partially met the targets for four, and did not meet the targets for two. From an impact standpoint, faculty members who participated in the project's different activities were exposed to new and more effective teaching methodologies being used in their classes. Also, faculty members advanced their English-language skills through the English courses provided and had greater opportunities to access training and educational materials not available in their local language. | 65 | (1) USAID/Afghanistan should determine the key indicators to measure and report results and revise the indicators at the implementer level, the mission level, or both, to more accurately link the activity data to the mission's planned results. | USAID reached an agreement with the Academy for Educational Development to jointly define critical performance indicators, incorporate data collection directly into the acquisition mechanism, and put in place a revised monitoring and evaluation (M&E) plan that would more accurately link activity data to the mission's planned results. A revised M&E plan was submitted to USAID on January 22, 2009, and formally approved on April 6, 2009. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|---|--|
| | | | | 66 (2) USAID/Afghanistan should intervene with the Ministry of Education and Ministry of Higher Education to reach an agreement on appropriate collaborative actions to further the Higher Education Project | The mission stated that initial efforts to establish cooperation between the Afghan Ministries of Education and Higher Education took place during the project-sponsored Teacher Standards Conference held November 17 and 18, 2008. Representatives from both ministries attended, as well as rectors from the 16 pedagogical universities and Kabul Education University. A memorandum of understanding among the Ministries of Education and Higher Education, the implementer, and USAID confirming the adoption of secondary and higher education standards of teacher education has been completed. This recommendation is closed. |
| | | | | 67 (3) USAID/Afghanistan should collaborate with AED and applicable Afghanistan universities to develop an exit strategy so that key services of professional development centers will continue after project completion. | AED and USAID/Afghanistan have begun a series of meetings designed to devise a mechanism for ensuring the sustainability of each of the 16 professional development centers. The centers are expected to be operational by January 31, 2011. A consortium meeting involving program partners was held from November 12 to November 13, 2008, to discuss development of a comprehensive sustainability plan. The draft exit strategy was submitted to the mission on December 28, 2008. This recommendation is closed. |
| | | | | 68 (4) USAID/Afghanistan should implement appropriate procedures to strengthen (a) project monitoring, (b) review and approval of project documents, and (c) maintenance of the CTO project file for the Higher Education Project. | The mission stated that the short-term staff assignments prevalent in Afghanistan prevent a CTO term of more than 1 year. However, the mission also acknowledges that CTO turnover for the project has been unacceptably high; however, it anticipates that the current CTO will remain in place until August 2009, and the mission will make every effort to curtail turnover. It is expected that a longer-term CTO will alleviate the project management issues cited by the audit. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|---|-------------|---|----|---|---|
| 26 | Audit of USAID/Afghanistan's Local Governance and Community Development Project in Southern and Eastern Regions of Afghanistan (5-306-09-003-P) | 11-May-09 | The audit disclosed that the project suffered from severe delays. In addition, the project was hindered by a need for improvements in the contractor's monitoring and evaluation system, refinements in the mission's operational plan indicators, and timely approval of annual contractor work plans. Furthermore, the contractor did not properly establish performance targets for the 14 key indicators in its performance monitoring plan for fiscal year 2008. | 69 | (1) USAID, in order to prevent additional delays, should develop contingency plans on how it intends to complete construction of buildings before the end of the contract. | In November 2008, USAID instructed Development Alternatives International (DAI) to stop the work on construction of all new government buildings and limit construction to renovations of existing buildings. The LGCD contract was extended 60 days to allow adequate time for all projects to be completed. This recommendation is closed. |
| | | | | 70 | (2) USAID should develop a detailed implementation plan identifying what activities it can successfully complete by the end of the project and explaining how it intends to use unexpended funds. | The Contracting Officer's Technical Representative (COTR) initiated a two-step project development process that requires more planning before a project is approved. The new process ensures that projects have local buy-in and are able to be implemented quickly and safely once approved. USAID is confident that all funds will be spent by December 2009. However, any remaining funds will be deobligated from the program and used to fund a new, follow-on project that USAID is designing in the same province that will be started in fiscal year 2010. This recommendation is closed. |
| | | | | 71 | (3) USAID should develop procedures to provide training to all new and existing field program officers as to their roles and responsibilities. | All existing field program officers (FPOs) attend USAID COTR training during their tours. The COTR is working with the contracting officer to draft specific "activity manager" memorandums that outline the roles and responsibilities of each FPO as related to the project. USAID is working to develop a U.S.-based orientation course that familiarizes incoming FPOs with USAID culture, rules, and regulations. This recommendation is closed. |
| | | | | 72 | (4) USAID should develop procedures requiring technical review of statements of work for specificity to assist in project implementation. | USAID/Afghanistan issued a mission notice requiring technical review of all statements of work. The review will occur either at the time of the activity approval or at the time of the modified acquisition and assistance request document. This recommendation is closed. |
| | | | | 73 | (5) USAID should establish procedures for subproject development and approval of component three activities and communicate these to DAI and the mission's development adviser. | Since the completion of fieldwork for this audit last year, the COTR has worked with DAI to develop a "toolkit" and action plan for the development and approval of component three activities (local stability initiatives). This toolkit specifies intervention criteria for subprojects, gives examples of interventions, and describes mechanisms for implementing these interventions. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|----|---|---|
| | | | | 74 | (6) USAID should develop procedures for providing existing and new development advisers training on their roles and responsibilities related to program implementation | USAID is working to develop a U S -based orientation course that will address FPO and development adviser roles in program implementation and their relationship with the COTRs. Development advisers no longer have responsibilities related to program implementation. However, they will attend all the training that has been instituted for the FPOs. This recommendation is closed. |
| | | | | 75 | (7) USAID should review DAI's draft performance monitoring plan for compliance with contract terms and approve the performance monitoring plan once all terms have been met. | The draft performance monitoring plan was approved by the COTR in November 2008 and is fully operational. DAI's internal systems and data collection procedures have been updated and all current and past subprojects are now being measured against this new performance monitoring plan (PMP). This recommendation is closed. |
| | | | | 76 | (8) USAID's COTR should direct DAI to develop standardized procedures for data collection and retention. | The COTR for LGCD has been working with DAI to develop standardized procedures for data collection and retention, and these procedures are now in place. This recommendation is closed. |
| | | | | 77 | (9) USAID's COTR should obtain an implementation plan from DAI that requires completion of the reprogramming of its automated system by April 30, 2009. | DAI's automated system has been fully reprogrammed as of February 2009. This system now includes indicator data for all subprojects as well as data source documents, and monitoring reports are now attached to more than 90 percent of all subprojects. This recommendation is closed. |
| | | | | 78 | (10) USAID should establish procedures to review operational plan indicators to ensure that targets with input from multiple implementers are developed by each implementer and then consolidated. | The mission has issued a mission directive that sets forth the responsibilities for review and approval of performance monitoring plans and the establishment of indicators. This recommendation is closed. |
| | | | | 79 | (11) USAID/Afghanistan should develop procedures to ensure that operational plan indicators are representative of how funds are being expended. | The mission has issued a mission directive that sets forth the responsibilities for review and approval of performance monitoring plans and the establishment of indicators. This recommendation is closed. |
| | | | | 80 | (12) USAID should review the operational plan indicators for the LGCD project and develop customized indicators or select additional common indicators to more accurately reflect the project's expenditure of funds. | The PRT office is working together with USAID/Washington's Conflict Mitigation and Management Office to develop customized indicators that more accurately reflect the goals of the project. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response | |
|---------|--|---|--|--|--|---|--|
| 27 | Audit of USAID/Afghanistan's Land Titling and Economic Restructuring in Afghanistan Project (5-306-09-004-P) | 8-Jun-09 | The audit found that, as a whole, the project achieved positive results under both components. Under the first component, the project laid a foundation that could benefit the Government of Afghanistan's land administration system. Under the second component, in the first 3 years the project provided technical assistance toward liquidating 23 state-owned enterprises, 3 state-owned banks, and 1 state-owned corporation. As a result, state-owned assets valued at \$10.6 million have been auctioned to successful bidders. The audit did find that the liquidation process took longer than expected and that the State-Owned Enterprise Department lacked the capacity to manage the liquidation process. Furthermore, USAID investment in privatization was not always successful, more collaboration could strengthen the project's impact, and there were problems in reductions of scope. | 81 | (1) USAID, in collaboration with Emerging Markets Group (EMG), Ltd., and the Ministry of Finance, should develop a plan to redirect remaining resources towards achieving the most optimal results by the end of the contract. The plan should consider the complexity of the outstanding issues barring final resolution and an assessment of what realistically can be completed by the end of the contract. | The Land Titling and Economic Restructuring in Afghanistan Project (LTERA) developed a work plan from March to September 2009, which was reviewed by the Minister of Finance and endorsed by Deputy Minister of Finance. This recommendation is closed. | |
| | | | | 82 | (2) USAID, in collaboration with EMG and the Ministry of Finance, should develop and implement a training strategy to provide a core group of state-owned enterprise department employees with sufficient knowledge so that they can carry out their roles and responsibilities of the project team. | A work and training plan was formulated and endorsed by Afghanistan's Deputy Minister of Finance. This recommendation is closed. | |
| | | | | 83 | (3) USAID should assess the feasibility of coordinating with other donors to improve the infrastructure and quality of life within the informal settlements. | The mission has agreed to the feasibility of coordination with other donors to improve the infrastructure and quality of life within the informal settlements. Specific actions have been taken and an action plan is being implemented. This recommendation is closed. | |
| | | | | 84 | (4) USAID should determine whether these unfinished tasks will have a negative impact on the project if left undone. If the mission believes the tasks should be completed as originally agreed to, the contracting office should direct the contractor to complete the tasks or formally modify the contract if warranted. | Mission and project personnel mutually decided that some activities outlined in the scope of work were not going to have a significant impact on the overall outcomes and that resources could be better directed. This recommendation is closed. | |
| FY 2010 | 28 | Audit of USAID/Afghanistan's Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program (5-306-10-002-P) | 10-Nov-09 | The audit concluded that, because of construction delays, USAID had not provided increased reliable power to these two areas within the planned timeframes. For the Kabul power plant, the delays were caused by an initial inability to obtain adequate title to land for the power plant, an ambiguous statement of work resulting in poor planning and implementation, subcontractor performance problems, lack of onsite quality assurance, and problems in clearing equipment and material through customs. For the Kajakai Dam project, deteriorating security in southern Afghanistan and inconsistent contractor performance contributed to the delay. | 85 | (1) USAID should require that its training on statement-of-work preparation be provided to all new contracting officer's technical representatives. | USAID is in the process of establishing the appropriate contractual mechanisms for COTRs to receive statement of work training. This course is intended to improve the COTRs' capacity in both technical writing and the review of statements of work, and it will be provided to all new COTRs. This recommendation remains open. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|---|--|
| | | | | 86 (2) USAID should develop procedures, such as the use of quality control checklists, to ensure that statements of work include such critical elements as clear deliverables with specified due dates | The contracting officer for the Office of Infrastructure, Engineering and Energy (OIEE) issued a statement of work template to all OIEE COTRs in June 2009. The template serves as a quality control checklist that describes the required elements for the statement of work and provides detailed instruction for preparing each section. This recommendation is closed. |
| | | | | 87 (3) USAID should establish procedures requiring that a labor skills assessment be performed by a contractor, either upon award of a construction contract or upon the award of a task order under the contract. The assessment would include, as appropriate but not limited to, the availability of qualified local labor, vocational training needed to cultivate local labor, and plans to coordinate with the mission to obtain appropriate visas for non-Afghan labor. | Workforce capacity in designing infrastructure projects is being assessed and new mission staff will be hired to perform preaward surveys of potential contractors and their proposed personnel. However, the mission does not agree that a blanket procedure should be put in place that requires contractors to perform a labor skills assessment. Meaningful labor assessments are difficult to maintain in Afghanistan given the fluidity of the workforce and the high demand for skilled labor. Instead, the mission expects to use preaward personnel surveys to help verify the availability of qualified staff proposed by the contractor. This recommendation is closed. |
| | | | | 88 (4) USAID should establish written procedures to ensure that all significant construction projects have onsite quality-assurance engineers. | On November 22, 2008, the Office of Acquisition and Assistance (OAA) issued a notice requiring all offices to ensure that a quality-assurance surveillance program is included during the construction of vertical structures. To cover the road and power construction activities, OAA will issue a similar notice that will define the technical standards to be observed and require quality-assurance monitoring during construction. This recommendation remains open. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|--|---|
| | | | | 89 (5) USAID should develop an overall implementation plan for the Kabul power plant project that incorporates updated construction schedules for the contractor and subcontractor, identifies delays in critical tasks, and establishes steps to keep the project on track | At the October 4, 2009, management meeting for the Infrastructure Rehabilitation Program, the contractor presented a detailed construction schedule and discussed how progress on each of the project components is being tracked against the schedule, on the basis of staff utilization. To provide an independent assessment of the progress of work, the mission has tasked the Human Resource and Logistical Support Program to monitor work progress and to bring to the mission's attention possible constraints in meeting the schedule. In addition, the COTR conducts weekly visits to the project to review the existing construction schedule, identify delays in critical tasks, and determine next steps. The contractor provides daily reports on the project status. This recommendation is closed. |
| | | | | 90 (6) USAID should develop a comprehensive sustainability plan that includes considerations for anticipated fuel purchases as well as the impact and timing of future mission projects affecting the 105-megawatt plant | A plan to improve long-term plant performance and to implement a training program to develop local skills and expertise in plant operation and maintenance is being developed. The Afghan Government has provided 50,343 liters of fuel to operate the plant and has established the new national electricity corporation, Da Afghanistan Breshna Sherkat (DABS), which lays the foundation for commercializing the country's energy sector and improving services for the Afghan people. USAID is implementing the Kabul Electricity Directorate (KED) commercialization contract to improve the commercial performance of the KED so that it can operate on a full-cost recovery basis assuming that by 2012, this contract results in a reduction in system losses and increase in collections and revenues to be directed toward fuel purchases. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--|-------------|---|----|---|--|
| | | | | 91 | (7) USAID should prepare a detailed implementation plan that documents the current status of the Kajakai project and explains how the mission intends to proceed with installation of turbine 2, including potential barriers to successful installation of the turbine and contingency plans to overcome these barriers | Installation of turbine 2 will be delayed because of the volatile and dangerous security environment, which is preventing ground transportation of necessary equipment and material to the site and construction of a new transmission line. Insurgents control the area, and the U.S. military expects that it will be several years before the Afghan National Army and coalition forces can secure the 87-kilometer route 611 from the Ring Road to Kajakai. The mission will continuously monitor and assess the security situation to determine whether it is feasible to proceed with the installation of turbine 2; however, until the security situation becomes sufficiently stable for work to continue on the Kajakai turbine 2 installation, work on the project is suspended. This recommendation remains open. |
| | | | | 92 | (8) USAID should recover at least \$2.1 million (including interest imputed through May 13, 2009) from the contractor | USAID/Afghanistan has recovered the amount owed from the contractor. This includes \$2,042,680 that was billed for collection and \$35,746 in accrued interest. This recommendation is closed. |
| 29 | Audit of USAID/Afghanistan's Afghan Civilian Assistance Program (5-306-10-004-P) | 15-Dec-09 | USAID/Afghanistan's Afghan Civilian Assistance Program (the program is not on target to achieve its main goal of assisting families and communities that have suffered losses as a result of military operations against insurgents and the Taliban. The International Organization for Migration (the implementer) reported that as of September 1, 2008, close to the midpoint of the program, only 803 of the more than 6,000 eligible families under the program--about 13 percent--were receiving assistance. Under an October 2008 recovery plan to get the program back on track, the implementer hoped to assist 5,102 of the estimated 6,378 eligible families by April 30, 2009. However, as of January 22, 2009, the implementer reported that it had actually serviced about 40 percent of the intended families, or 2,025 of the estimated target number of 5,102. | 93 | (1) USAID/Afghanistan develop a plan that will provide sufficient work time for the agreement officer's technical representative assigned to the Afghan Civilian Assistance Program to properly monitor and evaluate the programmatic needs for the program so that it can be implemented effectively and on schedule. | USAID established a fully dedicated technical representative in July 2009 and ensured that the incumbent had a limited scope of work to be able to better manage the program. The incumbent is assigned to the Provincial Reconstruction Team Office and reports directly to the office director, ensuring that the individual's duties will not be divided between oversight of the program and other outside duties. USAID also arranged for a four-member monitoring team, using an existing support services contract, to conduct site visits at four locations throughout Afghanistan during January 2010. This recommendation is closed. |
| | | | | 94 | (2) USAID/Afghanistan require the International Organization for Migration to adhere to a schedule in preparing and submitting the required planning and program reporting documents, such as implementation plans, monitoring and evaluation plans, and program reports to help the mission monitor and evaluate the implementation of the Afghan Civilian Assistance Program. | Consistent with the requirements of the cooperative agreement between USAID and the International Organization for Migration, USAID stated that the implementer has been adhering to specified reporting requirements for the past 3 quarters. With the establishment of a dedicated technical representative to provide oversight, USAID believes that the implementer will continue to meet its reporting requirements throughout the remainder of the program. This recommendation is closed. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|----|---|--|
| | | | | 95 | (3) USAID/Afghanistan require the International Organization for Migration to take appropriate action to adequately staff the Afghan Civilian Assistance Program at a level sufficient to provide timely and effective assistance to eligible beneficiaries | Following the audit, the implementer reassessed its staffing needs on the basis of the number of new incidents occurring in 2009, as well as the number of eligible families still requiring program assistance. While the implementer's staffing target at the time of the audit were set at approximately 86 staff members, it revised these targets to meet projected increases in the number of eligible beneficiaries and the extension of the program through November 30, 2010. The implementer projected that it would reach its full staffing level in January 2010. This recommendation remains open. |
| | | | | 96 | (4) USAID/Afghanistan require the International Organization for Migration to review its policy on the eligibility period for which applicants under the Afghan Civilian Assistance Program can apply and receive benefits to determine whether a more appropriate eligibility period should be used. | The technical representative instructed the implementer to modify the targeting of program assistance to newly occurring incidents. The implementer will prioritize newly occurring cases over those that occurred previously and will focus efforts primarily on those incidents occurring within the life of the current award (April 2007 through November 2010). For incidents prior to April 2007 that have been entered into the database and have yet to receive ACAP assistance, the implementer will determine which ones it can realistically access and respond to with available resources and which ones will need to be removed from the database. In eliminating selected past incidents from the database, the implementer's staff will be able to more readily focus the majority of their efforts and resources on newly occurring incidents and those that have occurred within the life of the project. This recommendation is closed. |
| | | | | 97 | (5) USAID/Afghanistan require the International Organization for Migration to review its policy on completed and closed-out grants to determine whether the policy should be revised, and, if appropriate, revise the policy so that completed grants can be closed out more rapidly. | The technical representative and the implementer's management staff met to review standing program policies and discuss steps to expedite the delivery of program assistance. The performance period of assistance grants was reduced, and as of September 2009, all program assistance grants were set at a maximum of 6 months. The implementer conducts a final monitoring visit at the end of the grant and aims to close out the grant 30 days thereafter. This will enable the implementer to close out assistance grants in half the time it had previously spent completing grants. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|----|--|--|
| | | | | 98 | (6) USAID/Afghanistan require the International Organization for Migration to review its policy on the acceptance of identification from applicants under the Afghan Civilian Assistance Program to determine whether the policy should be revised and, if appropriate, revise the policy to require that national identity cards be used for identification | <p>The technical representative instructed the implementer to report to USAID on the costs, benefits, and feasibility of requiring recipients of program assistance to possess a national identification (ID) card, and the implementer responded with its revised policy on identification cards. In addition, it has taken the following steps to ensure that assistance is not provided to the same beneficiaries more than once. All program beneficiaries are asked to present their national ID card when the implementer's staff conducts the family assessment. The national ID card number is recorded in the program's grants database following the interview. If beneficiaries do not possess a national ID card, implementing staff members ask them to obtain one as soon as possible and request that the beneficiaries to produce another form of identification. Program staff search the implementing database by ID number, name (including father's name), and location (village) before issuing new grants to avoid any duplication. This recommendation is closed.</p> |
| | | | | 99 | (7) USAID/Afghanistan require the International Organization for Migration to review its procedures on the distribution of education and tailoring kits to program beneficiaries, under the Afghan Civilian Assistance Program, to determine whether the kits are being distributed expeditiously and, if not, initiate actions to remedy the distribution | <p>The technical representative instructed the implementer to develop a plan for preordering and prepositioning standard forms of assistance, including education and tailoring kits. Following this instruction, the implementer reviewed its procedures and determined that the procurement process was the primary cause of its inability to expeditiously distribute assistance kits. The implementer provided a revised policy on preordering and prepositioning standard forms of assistance and signed long-term agreements with various local vendors. To attract possible bidders, implementers provide an estimate for the total value of the business. The long-term agreements are valid for 6 months. After 6 months, depending on the performance of the vendors, the implementer will conduct another bid or negotiate with existing vendors to renew the agreements under the same prices, terms, and conditions. This recommendation is closed.</p> |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--|-------------|---|-----|---|--|
| 30 | USAID/Afghanistan's Building Education Support Systems for Teachers Project (5-306-10-006-P) | 29-Jan-10 | OIG's audit of a \$94 million, 5-year contract with Creative Associates International, Inc to implement USAID's Building Education Support Systems for Teachers (BESST) project found that the project is making progress in helping to improve the quality of education in Afghanistan but has not achieved its two main goals: improving teaching through teacher training and institutionalizing ministry structures and systems that support high-quality teaching. The audit found that much of the training of teachers had been completed and that district teacher training teams had been established to help conduct training in all 11 provinces. However, notwithstanding these accomplishments, the audit found that, almost 4 years into the 5-year project, some significant tasks and activities included in the project's contract and work plan had not been completed. | 100 | (1) USAID/Afghanistan should negotiate a new memorandum of agreement with the Afghan Ministry of Education to formalize a working relationship between the mission, Creative Associates International, Inc, and the Ministry of Education to be used for accomplishing tasks and activities for the remaining period of the Building Education Support Systems for Teachers Project. | A new memorandum of agreement will be drafted and signed by all parties by August 30, 2010. The new agreement will include additional activities proposed for the remaining period of the current contract such as accelerated learning programs for teachers, distance education, education stabilization initiative grant program, and BESST's contribution to the national exam for teachers. In addition, the memorandum of agreement will be jointly reviewed annually in order to give both parties a clear understanding of one another's roles and responsibilities and promote consensus on any changes that might be necessary for the project for which the agreement will be modified accordingly. This recommendation remains open. |
| | | | | 101 | (2) USAID/Afghanistan should require Creative Associates International, Inc to submit all pertinent information related to all Building Education Support Systems for Teachers Project subcontract modifications for which the mission has not been notified. After receipt of the pertinent information from Creative Associates International, Inc, the mission should determine and document the acceptability of the subcontract modifications. | Since contract inception, Creative Associates International, Inc (CAII), sought initial consent from the contract officer for all subcontracts with the individual organizations. After receiving approval from USAID for the subcontractor budget estimates, documents on administrative actions between CAII and the subcontractors such as funding modifications were not submitted to USAID for approval. CAII has now provided USAID with all subcontract modifications. Each subcontract modification will be reviewed by the contracting officer for acceptability and approval. This recommendation remains open. |
| | | | | 102 | (3) We recommend that USAID/Afghanistan require a closeout audit of the subcontract between Creative Associates International, Inc, and JBS International, Inc -Aquirre Division related to the Building Education Support Systems for Teachers Project and take all corrective actions detailed in the closeout audit report. | The mission will require the contractor to conduct a closeout audit of JBS International. Upon completion of the closeout audit, the mission will ensure that all corrective actions detailed in the report are taken. This recommendation remains open. |
| | | | | 103 | (4) USAID/Afghanistan should require Creative Associates International, Inc and its subcontractors to provide documented proof of compliance with USAID Automated Directive System Chapter 320, "Branding and Marking," requirements or submit a written request to the mission for a waiver from the requirements. | The mission will formally advise the contractor of its responsibility to be compliant with the approved branding and marking plan. In addition, the contractor will be required to provide training to its staff and subcontractors in the proper implementation of the approved branding and marketing plan by April 30, 2010. This recommendation remains open. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--|-------------|---|-----|--|---|
| 31 | Audit of USAID/Afghanistan's Human Resources and Logistical Support Program (5-306-10-007-P) | 31-Mar-10 | OIG found that the program had made progress in capacity building within selected Afghan ministries, identified defective USAID-built structures, and provided engineering oversight for mission construction projects. The audit also pointed to several areas that were problematic. The most critical issue is to identify the many defective structures that likely remain among the estimated 1,474 mission-built structures. The total number of defective structures will be determined when the remainder of the preliminary assessments and any subsequent detailed seismic evaluations are completed. The mission anticipates that the contractor will complete 200 seismic evaluations by the end of the contract. In addition, significant defects in five buildings reported in a prior Office of Inspector General audit report (Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program," Audit Report No. 5-306-08-009-P, August 8, 2008) have yet to be corrected. | 104 | (1) USAID/Afghanistan should establish a separate reconstruction program that will provide prompt implementation of reconstruction action plans for defective structures and ensure that all defective USAID-built structures are reconstructed. | The mission will implement the required changes using an alternative implementation strategy than that proposed in the recommendation. Rather than establishing a separate reconstruction program, the mission will use existing contracting mechanisms. A structural engineer will manage the assessment of buildings while a new construction manager will supervise the reconstruction of defective buildings. This recommendation is closed. |
| | | | | 105 | (2) USAID/Afghanistan should take immediate action to secure and vacate the two occupied defective buildings constructed under the Accelerating Sustainable Agriculture Program. | On December 14, 2009, the contracting officer for the Accelerating Sustainable Agriculture Program (ASAP) issued a technical directive to Chemonics to demolish all five AgNet buildings in the most expeditious manner. The technical directive follows a series of communications from USAID to ASAP and the Ministry of Agriculture, Irrigation and Livestock regarding the disposition of the defective AgNet buildings. Since some of the buildings are occupied, ASAP sought the assistance of the provincial governors to support efforts to vacate the defective buildings. According to ASAP's demolition schedule, ASAP expects all five buildings to be vacated by April 2010 to pave the way for demolitions to be completed by May 2010. In the event that evacuation of the buildings is delayed, the contracting officer's technical representative (COTR) will seek higher level support to resolve the issue with the Afghan Government. This recommendation remains open. |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|---|--|
| | | | | 106 (3) USAID/Afghanistan should complete an implementation plan for the demolition and retrofitting of the five buildings constructed under the Accelerating Sustainable Agriculture Program, either by compelling Chemonics to perform or by using a third party. If a third party is used, the implementation plan should include requirements to reduce Chemonics' future billings in accordance with Federal Acquisition Regulation 52.246-5(e) for the cost of demolishing or retrofitting the structures. | USAID/Afghanistan completed an implementation plan for the demolition and reconstruction of the five AgNet buildings, which was conveyed by the contracting officer to ASAP in an email dated December 14, 2009. All demolition work is being conducted by Chemonics. To carry out the demolition, Chemonics awarded four subcontracts to local firms and is processing a subcontract for the demolition of the fifth building. According to the schedule submitted by ASAP, demolition of all five buildings will be completed by the third week of May 2010. Plans are also in place for Chemonics to reconstruct, not retrofit, the five buildings following demolition. Chemonics estimates that these activities will require a total of 5.5 months. This recommendation is closed. |
| | | | | 107 (4) USAID/Afghanistan should revise and reissue the November 2008 Office of Acquisition and Assistance notice on quality assurance to include requirements for quality assurance of construction performed under subcontracts and subagreements. | On December 7, 2009, USAID issued a notice to revise previous guidelines pertaining to construction requirements in subcontracts and subagreements. This recommendation is closed. |
| | | | | 108 (5) USAID/Afghanistan should revise its contracting officer's technical representative designation letter to communicate the need to comply with construction oversight and quality assurance requirements. | Some COTRs, especially new hires, are not aware of the need to comply with USAID/Afghanistan's construction oversight and quality assurance requirements. To address this problem, USAID will revise the designation letter for all awards that have a construction and architectural and engineering component to include directions on compliance with the mission's construction oversight and quality assurance requirements. This recommendation remains open. |
| | | | | 109 (6) USAID/Afghanistan should develop written procedures covering the types of roads that require engineering oversight and quality assurance. | USAID/Afghanistan's Road Team is drafting the procedures for providing the appropriate engineering oversight and quality assurance services to specific types of roads. This recommendation remains open. |

| No. | Report Title | Report Date | Summary of Findings | | Recommendations | USAID Response |
|-----|--------------|-------------|---------------------|-----|---|---|
| | | | | 110 | (7) USAID/Afghanistan take appropriate action during each portfolio review to require that all in-progress and completed construction projects during the review cycle are documented and shared with the Office of Infrastructure, Engineering and Energy so that it can ensure that the existing database of constructions projects is complete and provide engineering quality assurance oversight for those projects lacking it | USAID will use the portfolio reviews to collect information on ongoing and completed construction and engineering projects during the review cycle USAID will also use information collected through the Afghan Info database managed by the Office of Project and Program Development (OPPD) to confirm and supplement the information on construction projects gathered from the portfolio reviews USAID will issue an agenda for the portfolio review, which will include reporting on ongoing and completed construction projects during the review cycle This recommendation remains open |
| | | | | 111 | (8) USAID/Afghanistan establish procedures to grant the mission engineers or their designated representatives the right to communicate directly with the construction contractors or subcontractors on deviations from approved engineering designs | Direct communication with construction contractors will be limited to discussions of deviations and should not include instructions that could result in constructive changes to the contract The mission will establish procedures for communicating observed deviations It will issue a memorandum to advise contracting officers to include language in the COTR designation letters about the procedures allowing mission engineers or their designated representatives to directly communicate with contractors concerning deviations from approved engineering designs This recommendation remains open |
| | | | | 112 | (9) USAID/Afghanistan should require that the final subcontract requirements for the design of the new campus for the American University of Afghanistan be reviewed for adherence to appropriate engineering standards | On December 7, 2009, USAID issued a notice requiring that subcontract requirements for construction and architectural and engineering services be reviewed and approved by the Office of Infrastructure, Engineering, and Energy (OIEE) before the Office of Acquisition and Assistance accepts them for processing To ensure that the design of the American University of Afghanistan (AUAF) campus adheres to engineering standards and USAID requirements, USAID decided to implement the design activity through a separate mechanism managed by OIEE This was conveyed to the AUAF president in a letter from the agreement officer dated March 2, 2010 Because of AUAF's reticence about USAID's determination, discussions are ongoing to determine the best option for proceeding with the design, including whether the design should be funded by USAID Should AUAF and its Board of Trustees opt to use USAID funds for the design activity, the procurement requirements will have to be reviewed for adherence to appropriate engineering standards This recommendation is closed |

| No. | Report Title | Report Date | Summary of Findings | Recommendations | USAID Response |
|-----|---------------------------|-------------|---------------------|---|--|
| | | | | 113 (10) USAID/Afghanistan should require that all engineering drawings related to the American University of Afghanistan campus be reviewed for compliance with specified standards before the mission accepts delivery of the drawings | In order to ensure compliance with specified standards, USAID has determined and conveyed to AUAF that, if USAID funds are used for the design of the new campus, OIEE would implement the activity under a separate mechanism that it manages. USAID plans to present AUAF with several options for proceeding with design activities, with or without funding. This recommendation is closed. |
| | | | | 114 (11) USAID/Afghanistan should require that the final statement of work clearly identify the continuation of the Afghan Infrastructure Data Center as a core aspect of the follow-on contract, to include training of Afghan Ministries in the maintenance and use of the data center | The statement of work for the Engineering Quality Assurance and Logistical Support Program, the follow-on activity, has been revised as follows to include training of Afghan Ministries. Meanwhile, the ongoing Human Resource and Logistical Support Program has completed an assessment of the Ministry of Public Works' requirements to enable them to operate and maintain the roads database. A presentation is also scheduled at the Ministry of Energy and Water to inform the staff about the roll-out of the infrastructure database—Afghanistan Infrastructure and Security Cartography System—and to discuss their involvement in a user needs assessment and training. This recommendation is closed. |
| | | | | 115 (12) USAID/Afghanistan should complete all required contractor performance reviews of International Relief and Development, Inc. in accordance with Agency procedures | Contractor performance reviews covering the first 3 years of the contract have been completed and submitted to the Contractor Performance System of the National Institutes of Health. The COTR is now drafting a performance review for the fourth year, which ended on February 28, 2010. This recommendation remains open. |
| 31 | Performance audits issued | | | Total recommendations Recommendations open Recommendations open more than 1 year | 115 14 0 |

* Open recommendations: 85, 88, 91, 95, 100, 101, 102, 103, 105, 108, 109, 110, 111, 115

Afghanistan Financial Audit Findings

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|---|----------------|-------------|---------------------|------------------|-----------------|---|
| 1 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from September 30, 2002, to June 30, 2003 | 5-306-04-001-N | 23-Jan-04 | \$1,227,901 | \$29,449 | \$3,882 | |
| 2 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2003, to September 30, 2003 | 5-306-04-003-N | 26-Mar-04 | 666,841 | 114,020 | 13,001 | |
| 3 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2003, to December 31, 2003 | 5-306-04-004-N | 17-May-04 | 863,610 | 115,136 | 44,738 | |
| 4 | Application of Agreed-Upon Procedures on Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from September 30 2002, to June 30, 2003 | 5-306-04-002-D | 17-May-04 | 23,096,297 | 92,983 | 90,022 | |
| 5 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2004, to March 31, 2004 | 5-306-04-005-N | 9-Jul-04 | 1,578,442 | 137,596 | 9,127 | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|---|----------------|-------------|---------------------|------------------|-----------------|---|
| 6 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2004, to June 30, 2004 | 5-306-04-006-N | 23-Aug-04 | 2,039,979 | 14,112 | 0 | |
| 7 | Audit of Costs Incurred in the United States by The Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2003, to September 30, 2003 | 5-306-04-003-D | 16-Sep-04 | 40,486,450 | 109,186 | 91,678 | |
| 8 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2004, to September 30, 2004 | 5-306-05-002-N | 9-Dec-04 | 1,539,697 | 3,056 | 779 | |
| 9 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2004, to December 31, 2004 | 5-306-05-006-N | 14-Mar-05 | 1,525,711 | | | |
| 10 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2003, to June 30, 2004 | 5-306-05-006-D | 19-Apr-05 | 185,440,813 | 1,049,881 | 98,146 | OIG questioned \$785,716 in costs that were claimed by Louis Berger but were ineligible on the basis of its contract with USAID. These costs related to direct labor, subcontractors, equipment and furniture, and consultants. Additionally, OIG questioned \$264,165 in costs that could not be supported by documentation. |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|---|----------------|-------------|---------------------|------------------|-----------------|---|
| 11 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2005, to March 31, 2005, including Contract Line Item No. 2 costs for the period from April 1, 2004, to June 30, 2004 | 5-306-05-008-N | 30-Jun-05 | 1,606,343 | | | |
| 12 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2005 to June 30, 2005, including Contract Line Item No. 2 costs for the period from July 1, 2004 to June 30, 2005 | 5-306-05-009-N | 29-Aug-05 | 2,944,192 | | | |
| 13 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2005, to September 30, 2005 | 5-306-06-002-N | 8-Dec-05 | 2,114,250 | | | |
| 14 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2004, to March 31, 2005 | 5-306-06-002-D | 19-Dec-05 | 125,286,559 | 348,122 | 3,399 | |
| 15 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2005, to December 31, 2005 | 5-306-06-004-N | 21-Mar-06 | 2,144,967 | | | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|---|----------------|-------------|---------------------|------------------|-----------------|---|
| 16 | Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2006 to March 31, 2006 | 5-306-06-005-N | 28-Jun-06 | 3,097,361 | | | |
| 17 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2005, to December 31, 2005 | 5-306-06-003-D | 2-Aug-06 | 181,086,841 | 528,239 | 36,248 | |
| 18 | Audit of Treatment of Specified Costs Incurred by Camp, Dresser & McKee Constructors, Inc. Under the Afghanistan Water and Sanitation Program, USAID/Afghanistan Contract No. 306-C-00-04-00568-00 for the Period from September 30, 2004, to February 25, 2006 | 5-306-06-004-D | 10-Aug-06 | 261,390 | 221,509 | 31,509 | |
| 19 | Financial Audit of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2006, to June 30, 2006 | 5-306-07-001-N | 16-Oct-06 | 2,121,214 | | | |
| 20 | Financial Audit of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-00500-00, for the Period from July 1, 2006, to September 30, 2006 | 5-306-07-004-N | 11-Dec-06 | 1,740,855 | | | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|--|----------------|-------------|---------------------|------------------|-----------------|---|
| 21 | Financial Audit of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2006, to December 31, 2006 | 5-306-07-006-N | 18-Apr-07 | 1,488,612 | | | |
| 22 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2006, to June 30, 2006 | 5-306-07-002-D | 25-May-07 | 53,702,753 | 581,418 | 124,108 | |
| 23 | Financial Audit of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2007, to March 31, 2007 | 5-306-07-008-N | 27-Jun-07 | 1,299,053 | | | |
| 24 | Financial Audit of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from April 1, 2007, to June 30, 2007 | 5-306-08-001-N | 27-Nov-07 | 1,262,209 | | | |
| 25 | Closeout Audit of the Project Titled "Business Advisory Services to Small and Medium-Sized Enterprises (SMEs) in Afghanistan," USAID/Afghanistan Cooperative Agreement No. 306-A-00-04-00570-00, Managed by Acap Management Limited , for the Period from September 30, 2004, to March 29, 2007 | 5-306-08-019-R | 25-Apr-08 | 925,459 | 695,374 | 695,374 | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----|--|----------------|-------------|---------------------|------------------|-----------------|--|
| 26 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from July 1, 2006, to December 31, 2006 | 5-306-08-003-D | 16-May-08 | 39,274,703 | 846,872 | 51,014 | |
| 27 | Audit of Costs Incurred in the United States by The Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2007, to May 31, 2008; Audit Report No. 5-306-09-001-D | 5-306-09-001-D | 18-Jun-09 | 18,579,476 | 3,142,521 | 504,385 | Questioned costs related to overcharges on the contract, charges incurred that were inconsistent with the dates of activity in the contract, charges not approved by USAID, and a lack of purchase orders and invoices. |
| 28 | Financial Audit of Local Costs Incurred by the Joint Venture Louis Berger Group, Inc./Black & Veatch Special Projects Corp. to Implement the Afghanistan Infrastructure Rehabilitation Program, USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from August 25, 2006, to September 30, 2007 | 5-306-09-005-N | 25-Jun-09 | 2,268,126 | 267,556 | 254,526 | |
| 29 | Audit of Costs Incurred and Billed by BearingPoint, Inc. , USAID/Afghanistan Contract No. 306-C-00-03-00001-00, for the Period from November 1, 2002 to December 15, 2005 | 5-306-09-002-D | 19-Aug-09 | 95,817,000 | 95,817,000 | 95,817,000 | DCAA reported that it had continuous problems in obtaining the required information from BearingPoint in order to render an opinion on the reliability of BearingPoint's accounting systems. BearingPoint had made several manual adjustments that could not be explained and billed USAID for costs that did not reconcile with its computerized systems. |
| 30 | Financial Audit of the Program "Regenerating Murad Khane, Restoring, Refurbishing and Revitalizing the Old City," USAID/Afghanistan Cooperative Agreement No. 306-A-00-09-00503-00, Managed by the Turquoise Mountain Trust (TMT) , for the Period from November 2, 2008 to December 31, 2008 | 5-306-09-021-R | 29-Sep-09 | 421,310 | 4,710 | 4,710 | |

| No. | Audit Title | Report Number | Report Date | Total Costs Audited | Questioned Costs | Sustained Costs | Details for Questioned Costs over \$1 million |
|-----------|---|----------------|-------------|----------------------|----------------------|---------------------|---|
| 31 | Financial Audit of Local Costs Incurred by the Joint Venture Louis Berger Group, Inc./Black & Veatch Special Projects Corp. to Implement the Afghanistan Infrastructure Rehabilitation Program, USAID/Afghanistan Contract No. 306-I-00-06-00517-00, for the Period from October 1, 2007 to September 30, 2008 | 5-306-10-002-N | 25-Feb-10 | 5,594,190 | 46,912 | | |
| 32 | Financial Audit of the Afghanistan First Loss Reserve Fund, USAID/Afghanistan Cooperative Agreement No. 306-A-00-05-00512-00, Managed by the Deutsche Investitions- und Entwicklungsgesellschaft mbh (DEG) , for the Period from February 4, 2005 to December 31, 2008 | 5-306-10-001-D | 30-Mar-10 | 1,281,561 | 56,974 | | |
| 32 | Financial Audits Issued | | | \$802,784,165 | \$104,222,626 | \$97,873,646 | |
| | Percentage of Costs Audited | | | | 12.98% | 12.19% | |
| | Alpha designation in report number | | | | | | |
| | N = Nonfederal audit | | | | | | |
| | D = Defense Contract Audit Agency Audit | | | | | | |
| | R = Recipient-contracted Audit | | | | | | |

Planned Performance Audits of USAID/Afghanistan-Funded Activities

Fiscal Year 2010

Review of Security Costs Charged to Three USAID Projects by Edinburgh International for the Period January 1 to December 31, 2009

OIG will perform this review in Kabul at the offices of USAID/Afghanistan, Edinburgh International, and its prime contractor, Development Alternatives, International. The review will focus on Edinburgh International's financial records and cover the period from January 1 to December 31, 2009. To answer the review objective, we will collect evidence that will facilitate a reasonable conclusion as to whether there are indications that Edinburgh International misused USAID funds to pay bribes to the Taliban or others in exchange for protection. Specifically, the review will seek to answer the following questions to form the conclusion:

- Were improper practices engaged in or otherwise carried out by the contractor?
- Were these improper practices carried out deliberately, and not in error or by mistake?
- Were these improper practices carried out through the misrepresentation of material facts (i.e., falsified billings from the PSC to the prime contractor)?
- Did USAID rely on these material misrepresentations?
- Did the improper practice result in financial loss or damage to USAID (i.e., USAID funds siphoned off to the Taliban insurgents)?
- Did any of the parties to the transaction benefit from the improper practices?

Status: Conducting fieldwork.

Audit of USAID/Afghanistan's Construction of Health and Education Facilities Program

The Construction of Health and Education Facilities Program began on January 19, 2008, as a 3-year, \$56.8 million program with the International Organization for Migration. The overall goal of this program is to construct hospitals, midwife training centers, and provincial teacher resource colleges to increase access to quality medical care and

education for all Afghans, with a special emphasis on promoting equitable access for women and girls. As of March 2009, work had begun at many of the construction sites, including geotechnical testing, boundary or guard house construction, site leveling, and well drilling.

This audit will determine whether USAID/Afghanistan's Construction of Health and Education Facilities Program is achieving its main goals, including building health and education facilities to increase access to health care and education.

Status: Planned.

Audit of USAID/Afghanistan's Support for Increased Electoral Participation in Afghanistan Activity

USAID/Afghanistan has been supporting programs designed to strengthen democratic governance since 2003. For elections to be seen as credible and abiding by international standards, the Afghan Government's Independent Election Commission must administer a transparent elections process and increase its organizational capacity. The international community plans to support the Government of Afghanistan in designing institutions and implementing programs, as opposed to performing these tasks on the Government's behalf. Support to civil society to monitor the entire electoral process will also be necessary, as will efforts to increase awareness and understanding of the voting rights and responsibilities of Afghan citizens. In September 2008, USAID/Afghanistan awarded a \$40 million cooperative agreement to the Consortium for Elections and Political Process Strengthening (CEPPS).

This audit will determine whether USAID's administration of the cooperative agreement with CEPPS has strengthened local institutions in their efforts to administer a transparent election process.

Status: Planned.

Audit of USAID/Afghanistan's Support to the Electoral Process in Afghanistan Activity

The 2009–2010 elections are the first Afghan-administered elections since 1964. For elections to be seen as credible and abiding by international standards, the Independent Election Commission of Afghanistan (IEC) must administer a transparent election process and increase its organizational capacity. It will be crucial to the future sustainability of the IEC to open and operate offices at the subnational level in Afghanistan. Without these offices, it will be nearly impossible for the Government to administer elections. To increase electoral capacity and improve electoral administration, USAID/Afghanistan

issued a \$67 million task order to the International Foundation for Electoral Systems (IFES) in June 2008.

This audit will determine whether USAID, through its administration of a task order to IFES, has increased electoral capacity and improved electoral administration in Afghanistan.

Status: Planned.

Audit of USAID/Afghanistan's Water, Agriculture, and Technology Transfer Program

USAID/Afghanistan awarded a \$19.8 million cooperative agreement to New Mexico State University to implement the Afghanistan Water, Agriculture, and Technology Transfer Program. The program's main objective is to increase the opportunity for Afghans to access information and knowledge on appropriate technology, provide the tools and mechanisms for policy and institutional changes that would enhance the management of the supply and demand of water resources, and develop a legislative framework for tenure and rights over private and common land in the rural areas. According to the mission, the creation of a water-basin model through a participatory, nationwide data-gathering effort is another aspect of the program that will have great impact on Afghanistan's arid landscape.

This audit will determine whether USAID/Afghanistan's Afghanistan Water, Agriculture, and Technology Transfer Program is improving the legal framework for property rights, strengthening local institutions, and building local capacity to undertake analysis of water, agriculture, and other rural development issues.

Status: Planned.

Review of USAID/Afghanistan Contractors' Compliance With the Trafficking Victims Protection Reauthorization Act of 2008

Section 232(a) of the William Wilberforce Trafficking Victims Protection Reauthorization Act of 2008 requires OIGs for USAID, Department of State, and Department of Defense to investigate a sample of high-risk contracts in each of fiscal years 2010 through 2012. The types of contracts to be investigated include primary contracts, or subcontracts at any tier, under which there is a heightened risk that a contractor may engage, knowingly or unknowingly, in acts related to trafficking in persons. These acts would include the following:

- Confiscation of an employee's passport
- Restriction on an employee's mobility

- Abrupt or evasive repatriation of an employee
- Deception of an employee regarding the work destination
- Acts otherwise described in section 106(g) of the Trafficking Victims Protection Act of 2000

The acts “otherwise described” include severe forms of trafficking in persons or procuring a commercial sex act during the period of time that the grant, contract, or cooperative agreement is in effect. They also include using forced labor in the performance of the grant, contract, or cooperative agreement. OIG is required to submit annual reports to Congress on human trafficking, due on January 15 in 2010 and 2011.

The review will determine whether (1) USAID/Afghanistan and selected contractors established sufficient controls to prevent trafficking of persons and (2) selected USAID/Afghanistan contractors and subcontractors engaged in trafficking-of-persons practices.

Status: Draft report has been completed.

Audit of USAID/Afghanistan’s Partnership for Community-Based Education in Afghanistan Program

According to the Afghanistan National Development Strategy, Afghanistan has the highest proportion of school-aged children (aged 7–12) in the world: about one in five Afghans is a school-aged child. However, half of all school-aged children remain out of school. Among Afghans aged 15–24, the most educated part of the population, only 34 percent are literate—about 50 percent for males and 18 percent for females. To expand the quality of learning and life opportunities for marginalized communities and their children in Afghanistan, by increasing access to community-based education, USAID/Afghanistan awarded a \$24 million cooperative agreement in April 2006 to CARE International. The program’s objectives include conducting classes, training teachers, creating demand and awareness, building capacity of the community and local organizations, and establishing quality programs in remote areas.

This audit will determine whether USAID/Afghanistan’s Partnership for Community-Based Education in Afghanistan Program is increasing access to community-based quality education.

Status: Planned

Audit of USAID/Afghanistan's Support to the American University of Afghanistan Activity

The American University of Afghanistan's mission is to provide a high-quality education, in comparison with international standards, that emphasizes a liberal arts curriculum and higher education for the professions. To accelerate the preparation of students for entry to a college program, USAID/Afghanistan awarded a \$42 million cooperative agreement to the American University of Afghanistan in August 2008 to implement a community-based education program. The offering of a complete curriculum and course offerings in three undergraduate majors, including information technology and computer science, business administration, and liberal arts, will be accomplished during the first 2 years of the agreement. Additional undergraduate programs may be developed in fields such as public sector management, public health, international relations, engineering, and agriculture.

This audit will determine whether USAID/Afghanistan's Support to the American University of Afghanistan Activity is improving access to quality higher education.

Status: Planned.

Audit of USAID/Afghanistan's Alternative Development Program Expansion, South and West

USAID/Afghanistan awarded a \$75 million contract to Associates in Rural Development to implement the Alternative Development Program Expansion, South and West. The objective of this program is to counter illegal poppy cultivation by providing alternative livelihoods programs, improved economic opportunities, and diverse regional economic growth in selected areas of Afghanistan. The program will help communities identify and seize opportunities to improve incomes through the legal economy, while reinforcing the social and economic infrastructure on which these opportunities depend.

This audit will determine whether USAID/Afghanistan's Alternative Development Program Expansion, South and West, is providing licit economic opportunities and helping to build a basis for diversified regional economic growth.

Status: Draft report has been prepared.

Audit of USAID/Afghanistan's Afghanistan Vouchers for Increased Production in Agriculture Program

The seed and fertilizer component of the Afghanistan Vouchers for Increased Production in Agriculture (AVIPA) Program was initially implemented to distribute wheat seed and fertilizer to small farmers in nine provinces of northern and western Afghanistan. Food security is a serious problem in Afghanistan, due to high food prices, an ongoing conflict, and a severe drought. As a result of these conditions, the AVIPA agreement was modified to expand the program to include a larger geographical area. The program was originally funded at \$90 million but is planned to increase to \$360 million. The program will serve 285,000 farmers.

This audit will determine whether USAID/Afghanistan's Afghanistan Vouchers for Increased Production in Agriculture Program is increasing food security through distribution of seed and fertilizer.

Status: Draft report has been prepared.

Afghanistan Performance Audits

Fiscal Year 2010

Audit of USAID/Afghanistan's Human Resources and Logistical Support Program (No. 5-306-10-007-P)

| | |
|------------------------------|---|
| Date: | March 31, 2010 |
| Implementing Partner: | International Relief and Development, Inc. |
| Audit Period: | March 1, 2006, to October 29, 2009 |
| Funding: | As of September 30, 2009, \$47 million had been obligated, and \$36 million had been spent for project activities |

Background—Summary of Findings

USAID/Afghanistan launched its Human Resources and Logistical Support Program in February 2007 to help design, monitor, and support the activities of USAID-funded contractors. The program intended to (1) enhance capacity at selected ministries, (2) identify USAID-constructed buildings that do not meet seismic standards, and (3) provide quality assurance and engineering oversight for mission construction projects. USAID awarded a 5-year, \$72 million contract to International Relief and Development, Inc., to implement the program.

The audit found that the program had made progress in capacity building within selected Afghan ministries, identified defective USAID-built structures, and provided engineering oversight for mission construction projects.

In support of its first goal, the program provided the Afghan Government with additional capacity. Technical consultants hired under the program assisted Ministry of Mines personnel in preparing a proposal for the rehabilitation of gas fields to generate electrical power for the country. Meanwhile, at the Ministry of Public Works, program advisers initiated the development of a pilot program to teach ministry staff how to implement and monitor road construction projects and provide them with a more efficient means of managing and maintaining roads in the future. At the Ministry of Energy and Water, the program contractor provided a transboundary water-rights adviser to help the ministry develop water policies for negotiations with neighbors in other countries.

With regard to the second goal—evaluating and identifying USAID-built structures that did not meet seismic standards—the program was successful in establishing a process for identifying structures that are not earthquake resistant. The mission has a database of 1,474 USAID-built structures, but the database is not complete. As of October 2009, the

program had completed preliminary assessments of 468 of these structures and detailed structural seismic evaluations of 35. So far, the program has found 15 structures to be unsafe for occupancy.

With regard to the third goal, of providing quality assurance and engineering oversight on USAID construction projects, the program has succeeded in providing these services for projects initiated by the mission's Office of Infrastructure, Engineering and Energy. However, the mission has not been so successful in providing quality-assurance services for construction projects initiated by other program offices within the mission.

Despite the program's progress in addressing its three main goals, it has serious issues that need to be addressed. The most critical issue is to identify the many defective structures that likely remain among the estimated 1,474 mission-built structures. The total number of defective structures will be determined when the remainder of the preliminary assessments and any subsequent detailed seismic evaluations are completed. The mission anticipates that the contractor will complete 200 seismic evaluations by the end of the contract. In addition, significant defects in five buildings reported in a prior Office of Inspector General audit report ("Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program," Audit Report No. 5-306-08-009-P, August 8, 2008) have yet to be corrected. If all defective structures are not identified, and if those already identified are not repaired or rebuilt, a catastrophic earthquake could cause many injuries and deaths.

Recommendations—Management Decisions

This report makes 12 recommendations to improve mission implementation of its construction programs:

1. That USAID/Afghanistan establish a separate reconstruction program that will provide prompt implementation of reconstruction action plans for defective structures and ensure that all defective USAID-built structures are reconstructed.

The mission will implement the required changes using an alternative implementation strategy than that proposed in the recommendation. Rather than establishing a separate reconstruction program, the mission will use existing contracting mechanisms. A structural engineer will manage the assessment of buildings while a new construction manager will supervise the reconstruction of defective buildings. This recommendation is closed.

2. That USAID/Afghanistan take immediate action to secure and vacate the two currently occupied defective buildings constructed under the Accelerating Sustainable Agriculture Program.

On December 14, 2009, the contracting officer for the Accelerating Sustainable Agriculture Program (ASAP) issued a technical directive to Chemonics to demolish all five AgNet buildings in the most expeditious manner. The technical directive follows a series of communications from USAID to ASAP and the

Ministry of Agriculture, Irrigation and Livestock regarding the disposition of the defective AgNet buildings. Since some of the buildings are occupied, ASAP sought the assistance of the provincial governors to support efforts to vacate the defective buildings.

According to ASAP's demolition schedule, ASAP expects all five buildings to be vacated by April 2010 to pave the way for demolitions to be completed by May 2010. In the event that evacuation of the buildings is delayed, the contracting officer's technical representative (COTR) will seek higher level support to resolve the issue with the Afghan Government. This recommendation remains open.

3. That USAID/Afghanistan complete an implementation plan for the demolition and retrofitting of the five buildings constructed under the Accelerating Sustainable Agriculture Program either by compelling Chemonics to perform or by using a third party. If a third party is used, the implementation plan should include requirements to reduce Chemonics' future billings in accordance with Federal Acquisition Regulation 52.246-5(e) for the cost of demolishing or retrofitting the structures.

USAID/Afghanistan completed an implementation plan for the demolition and reconstruction of the five AgNet buildings, which was conveyed by the contracting officer to ASAP in an email dated December 14, 2009. All demolition work is being conducted by Chemonics. To carry out the demolition, Chemonics awarded four subcontracts to local firms and is processing a subcontract for the demolition of the fifth building. According to the schedule submitted by ASAP, demolition of all five buildings will be completed by the third week of May 2010.

Plans are also in place for Chemonics to reconstruct, not retrofit, the five buildings following demolition. Chemonics estimates that these activities will require a total of 5.5 months.

This recommendation is closed.

4. That USAID/Afghanistan revise and reissue the November 2008 Office of Acquisition and Assistance notice on quality assurance to include requirements for quality assurance of construction performed under subcontracts and subagreements.

On December 7, 2009, USAID issued a notice to revise previous guidelines pertaining to construction requirements in subcontracts and subagreements. This recommendation is closed.

5. That USAID/Afghanistan revise its contracting officer's technical representative designation letter to communicate the need to comply with construction oversight and quality-assurance requirements.

Some COTRs, especially new hires, are not aware of the need to comply with USAID/Afghanistan's construction oversight and quality-assurance requirements. To address this problem, USAID will revise the designation letter for all awards that have a construction and architectural and engineering component to include directions on compliance with the mission's construction oversight and quality-assurance requirements. This recommendation remains open.

6. That USAID/Afghanistan develop written procedures covering the types of roads that require mandatory engineering oversight and quality assurance.

USAID/Afghanistan's Road Team is drafting the procedures for providing the appropriate engineering oversight and quality-assurance services to specific types of roads. This recommendation remains open.

7. That USAID/Afghanistan take appropriate action during each portfolio review to require that all in-process and completed construction projects during the review cycle are documented and shared with the Office of Infrastructure, Engineering and Energy as a means for it to ensure the existing database of constructions projects is complete and provide engineering quality-assurance oversight for those projects lacking it.

USAID will use the portfolio reviews to collect information on ongoing and completed construction and engineering projects during the review cycle. USAID will also use information collected through the Afghan Info database managed by the Office of Project and Program Development to confirm and supplement the information on construction projects gathered from the portfolio reviews. USAID will issue an agenda for the portfolio review, which will include reporting on ongoing and completed construction projects during the review cycle. This recommendation remains open.

8. That USAID/Afghanistan establish procedures to grant the mission engineers or their designated representatives the right to communicate directly with the construction contractors or subcontractors on deviations from approved engineering designs.

Direct communication with construction contractors will be limited to discussions of deviations and should not include instructions that could result in constructive changes to the contract. The mission will establish procedures for communicating observed deviations. It will issue a memorandum to advise contracting officers to include language in the COTR designation letters about the procedures allowing mission engineers or their designated representatives to

directly communicate with contractors concerning deviations from approved engineering designs. This recommendation remains open.

9. That USAID/Afghanistan require that the final subcontract requirements for the design of the new campus for the American University of Afghanistan be reviewed for adherence to appropriate engineering standards.

On December 7, 2009, USAID issued a notice requiring that subcontract requirements for construction and architectural and engineering services be reviewed and approved by the Office of Infrastructure, Engineering, and Energy (OIEE) before the Office of Acquisition and Assistance accepts them for processing.

To ensure that the design of the American University of Afghanistan (AUAF) campus adheres to engineering standards and USAID requirements, USAID decided to implement the design activity through a separate mechanism managed by OIEE. This was conveyed to the AUAF president in a letter from the agreement officer dated March 2, 2010. Because of AUAF's reticence about USAID's determination, discussions are ongoing to determine the best option for proceeding with the design, including whether the design should be funded by USAID. Should AUAF and its Board of Trustees opt to use USAID funds for the design activity, the procurement requirements will have to be reviewed for adherence to appropriate engineering standards.

This recommendation is closed.

10. That USAID/Afghanistan require that all engineering drawings related to the American University of Afghanistan Campus be reviewed for compliance with specified standards before the mission accepts delivery of the drawings.

In order to ensure compliance with specified standards, USAID has determined and conveyed to AUAF that, if USAID funds are used for the design of the new campus, OIEE would implement the activity under a separate mechanism that it manages. USAID plans to present AUAF with several options for proceeding with design activities, with or without funding.

This recommendation is closed.

11. That USAID/Afghanistan require that the final statement of work clearly identifies the continuation of the Afghan Infrastructure Data Center as a core aspect of the follow-on contract, to include training of Afghan Ministries in the maintenance and use of the data center.

The statement of work for the Engineering Quality Assurance and Logistical Support Program, the follow-on activity, has been revised as follows to include training of Afghan Ministries. Meanwhile, the ongoing Human Resource and

Logistical Support Program has completed an assessment of the Ministry of Public Works' requirements to enable them to operate and maintain the roads database. A presentation is also scheduled at the Ministry of Energy and Water to inform the staff about the roll-out of the infrastructure database—Afghanistan Infrastructure and Security Cartography System—and to discuss their involvement in a user needs assessment and training. This recommendation is closed.

12. That USAID/Afghanistan complete all required contractor performance reviews of International Relief and Development, Inc., in accordance with Agency procedures.

Contractor performance reviews covering the first 3 years of the contract have been completed and submitted to the Contractor Performance System of the National Institutes of Health. The COTR is now drafting a performance review for the fourth year, which ended on February 28, 2010. This recommendation remains open.

Audit of USAID/Afghanistan’s Building Education Support Systems for Teachers Project (No. 5-306-10-006-P)

Date: January 29, 2010
Implementing Partner: Creative Associates, Inc.
Audit Period: May 20 through June 10, 2009
Funding: As of September 30, 2009, \$56 million had been obligated, and \$48 million had been spent for project activities

Background—Summary of Findings

Almost 4 years into a \$94 million, 5-year contract with Creative Associates International, Inc., to implement USAID’s Building Education Support Systems for Teachers project, OIG’s audit concluded that the project is making progress in helping to improve the quality of education in Afghanistan but has not achieved its two main goals: improving teaching through teacher training and institutionalizing ministry structures and systems that support high-quality teaching.

Afghanistan has one of the highest illiteracy rates in the world. More than 11 million Afghans over the age of 15 cannot read or write. In rural areas, where three-fourths of all Afghans live, 90 percent of the women and over 60 percent of the men are illiterate. Under the Taliban, girls were not allowed to go to school, fewer than 900,000 boys were enrolled, and many received religious education in lieu of academics. The implications of this lack of education can be felt in all domains of life. Afghans have little access to information about good health practices, and most of the country’s judges and civil servants do not have more than a high school diploma. Today more than 5.7 million students attend school. However, the Afghan Government is striving to improve education for its people, and the Ministry of Education is working with USAID and other donors to implement a 5-year National Education Strategic Plan (2006–10).

The audit found that much of the training of teachers had been completed. For example, 50,600 of the target of 54,000 teachers in the 11 provinces had received inservice training for teachers already working for the Ministry of Education. Although the project has not attempted to measure the extent to which teaching has actually been improved, teachers we spoke with expressed satisfaction with the training they had received. And much of the technical assistance to the Ministry of Education had been completed. For example, Creative Associates had assisted in recruiting and selecting most of the 444 candidates who were expected to help the Ministry of Education develop its capacity to improve the quality of teaching.

In addition, the audit found that district teacher training teams had been established to help conduct training in all 11 provinces. This approach used a cascading process of training existing teachers as instructors who in turn would train other teachers. The project teamed with subcontractors to select and hire 181 team leaders, 1,361 team members, and 8 provincial project monitoring officers, all by December 2007. Moreover, the project developed (1) an action plan for the Ministry of Education's 5-year strategic plan, (2) a human resources policy manual, (3) a training curriculum for management skills, and (4) an action plan for the integration of the Human Resources Department and the Reform Implementation and Management Unit at the Ministry of Education.

However, notwithstanding these accomplishments, the audit found that some significant tasks and activities included in the project's contract and work plan had not been completed. For example, the project had not completed the curriculum development and related inservice teacher training or the accelerated program for teachers who did not meet Ministry of Education teaching qualifications for their specific subject/grade level, as planned under component 1 of the project. The project also did not complete some activities planned under component 2—for example, technical assistance intended for the Ministry of Education's Human Resources Department, such as development of a curriculum and staff training on a human resource database; creation of a training manual for the payroll database for budget staff; and preparation of at least one workshop on pedagogical methods for faculty at each provincial teacher training college. The contractor hoped to complete these efforts by the contract's end.

Recommendations—Management Decisions

The audit identified several issues that the mission needed to address to improve the results of the program. The memorandum of agreement between the mission, the contractor, and the Ministry of Education was outdated and needed to be revised. High-value subcontract modifications made by Creative Associates had not been approved by the mission, and USAID branding and marking requirements were not being followed.

The audit made four recommendations that were deemed necessary to help the mission properly oversee implementation and evaluation of the project:

1. That USAID/Afghanistan negotiate a new memorandum of agreement with the Afghan Ministry of Education to formalize a working relationship between the mission, Creative Associates International, Inc., and the Ministry of Education to be used for accomplishing tasks and activities for the remaining period of the Building Education Support Systems for Teachers Project.

A new memorandum of agreement will be drafted and signed by all parties by August 30, 2010. The new agreement will include additional activities proposed for the remaining period of the current contract, such as accelerated learning programs for teachers, distance education, education stabilization initiative grant program, and BESST's contribution to the national exam for teachers. In addition, the memorandum of agreement will be jointly reviewed annually in order to give both parties a clear understanding of one another's roles and responsibilities and promote consensus on

any changes that might be necessary for the project for which the agreement will be modified accordingly. This recommendation remains open.

2. That USAID/Afghanistan require Creative Associates International, Inc., to submit all pertinent information related to all Building Education Support Systems for Teachers Project subcontract modifications for which the mission has not been notified. After receipt of the pertinent information from Creative Associates International, Inc., the mission should determine and document the acceptability of the subcontract modifications.

Since contract inception, Creative Associates International, Inc. (CAII), sought initial consent from the contract office for all subcontracts with the individual organizations. After receiving approval from USAID for the subcontractor budget estimates, documents on administrative actions between CAII and the subcontractors, such as funding modifications, were not submitted to USAID for approval. CAII has now provided USAID with all subcontract modifications. Each subcontract modification will be reviewed by the contracting officer for acceptability and approval. This recommendation remains open.

3. That USAID/Afghanistan require a closeout audit of the subcontract between Creative Associates International, Inc., and JBS International, Inc.-Aquirre Division related to the Building Education Support Systems for Teachers Project and take all corrective actions detailed in the closeout audit report.

The mission will require the contractor to conduct a closeout audit of JBS International. Upon completion of the closeout audit, the mission will ensure that all corrective actions detailed in the report are taken. This recommendation remains open.

4. That USAID/Afghanistan require Creative Associates International, Inc., and its subcontractors to provide documented proof of compliance with the requirements of USAID Automated Directive System Chapter 320, "Branding and Marking," or submit a written request to the mission for a waiver from the requirements.

The mission will formally advise the contractor of its responsibility to be compliant with the approved branding and marking plan. In addition, the contractor will be required to provide training to its staff and subcontractors in the proper implementation of the approved branding and marketing plan by April 30, 2010. This recommendation remains open.

Audit of USAID/Afghanistan's Civilian Assistance Program (No. 5-306-10-004-P)

| | |
|------------------------------|--|
| Date: | December 15, 2009 |
| Implementing Partner: | International Organization for Migration |
| Audit Period: | April 2007 to February 2009 |
| Funding: | As of December 31, 2008, \$18.5 million had been obligated and about \$6.4 million had been spent for program activities |

Background—Summary of Findings

The Civilian Assistance Program is being implemented through a \$27 million, 3-year cooperative agreement (April 2007 to April 2010) with the International Organization for Migration. OIG's audit found that the program—which is intended to provide help to Afghan families and communities that have suffered losses because of military operations—is not on target to assist eligible program beneficiaries.

Assistance under the program is generally provided in goods and services to those who have suffered losses—a farmer might receive a tractor or livestock and a grocer might receive merchandise to restock his store. The program is being implemented through a \$27 million cooperative agreement with the International Organization for Migration. As of December 31, 2008, \$18.5 million had been obligated and about \$6.4 million had been spent for program activities.

At the midpoint of the program, just over 800 of the more than 6,000 eligible families in the program were receiving assistance, about 13 percent. As of January 22, 2009, the implementer reported that it had assisted only about 40 percent of families included in its revised recovery plan, which had been submitted just after the implementation midpoint.

In addition, until the program was halfway through, USAID officials had very limited involvement in the program and little information about its progress. Officials had not followed up regularly on the status of the implementer's implementation plan, monitoring and evaluation plan, or quarterly program reports. The mission also had not made sufficient site visits to adequately evaluate the program's progress and had not properly monitored the staffing of positions for the implementing organization.

Security concerns contributed to the program's understaffing, which continued to be a challenge at the time of the audit. As of January 2009, a subcontractor for the implementer had hired only 56 of the 86 employees believed necessary to meet program targets. At the time of the audit, the implementer's documents indicated that its subcontractor was still in the process of hiring 30 staff members for the 6 regional offices where the program was being implemented. In addition, the implementer had not taken advantage of opportunities

to improve the effectiveness and efficiency of the program, such as limiting the program's eligibility period and requiring beneficiaries to present Afghan national identification cards.

Recommendations—Management Decisions

The audit made seven recommendations that were deemed necessary to help the mission properly oversee implementation and evaluation of the program.

1. That USAID/Afghanistan develop a plan that will provide sufficient work time for the agreement officer's technical representative assigned to the Afghan Civilian Assistance Program to properly monitor and evaluate the programmatic needs for the program so that it can be implemented effectively and on schedule.

USAID established a fully dedicated technical representative in July 2009 and ensured that the incumbent had a limited scope of work to be able to better manage the program. The incumbent is assigned to the Provincial Reconstruction Team Office and reports directly to the office director, ensuring that the individual's duties will not be divided between oversight of the program and other outside duties. USAID also arranged for a four-member monitoring team, using an existing support services contract, to conduct site visits at four locations throughout Afghanistan during January 2010. This recommendation is closed.

2. That USAID/Afghanistan require the International Organization for Migration to adhere to a schedule in preparing and submitting the required planning and program reporting documents, such as implementation plans, monitoring and evaluation plans, and program reports to help the mission monitor and evaluate the implementation of the Afghan Civilian Assistance Program.

Consistent with the requirements of the cooperative agreement between USAID and the International Organization for Migration, USAID stated that the implementer has been adhering to specified reporting requirements for the past 3 quarters. With the establishment of a dedicated technical representative to provide oversight, USAID believes that the implementer will continue to meet its reporting requirements throughout the remainder of the program. This recommendation is closed.

3. That USAID/Afghanistan require the International Organization for Migration to take appropriate action to adequately staff the Afghan Civilian Assistance Program at a level sufficient to provide timely and effective assistance to eligible beneficiaries.

Following the audit, the implementer reassessed its staffing needs on the basis of the number of new incidents occurring in 2009, as well as the number of eligible families still requiring program assistance. While the implementer's staffing targets at the time of the audit were set at approximately 86 staff members, it revised these targets to meet projected increases in the number of eligible beneficiaries and the extension of the

program through November 30, 2010. The implementer projected that it would reach its full staffing level in January 2010. This recommendation remains open.

4. That USAID/Afghanistan require that the International Organization for Migration review its policy on the eligibility period for which applicants under the Afghan Civilian Assistance Program can apply and receive benefits to determine whether a more appropriate eligibility period should be used.

The technical representative instructed the implementer to modify the targeting of program assistance to newly occurring incidents. The implementer will prioritize newly occurring cases over those that occurred previously and will focus efforts primarily on those incidents occurring within the life of the current award (April 2007 through November 2010).

For incidents prior to April 2007 that have been entered into the database and have yet to receive program assistance, the implementer will determine which ones it can realistically access and respond to with available resources and which ones will need to be removed from the database. In eliminating selected past incidents from the database, the implementer's staff will be able to more readily focus the majority of their efforts and resources on newly occurring incidents and those that have occurred within the life of the project.

This recommendation is closed.

5. That USAID/Afghanistan require that the International Organization for Migration review its policy on completed and closed-out grants to determine whether the policy should be revised and, if appropriate, revise the policy so that completed grants can be closed out more rapidly.

The technical representative and the implementer's management staff met to review standing program policies and discuss steps to expedite the delivery of program assistance. The performance period of assistance grants was reduced, and as of September 2009, all program assistance grants were set at a maximum of 6 months. The implementer conducts a final monitoring visit at the end of the grant and aims to close out the grant 30 days thereafter. This will enable the implementer to close out assistance grants in half the time it had previously spent completing grants.

This recommendation is closed.

6. That USAID/Afghanistan require that the International Organization for Migration review its policy on the acceptance of identification from applicants under the Afghan Civilian Assistance Program to determine whether the policy should be revised, and, if appropriate, revise the policy to require that national identity cards be used for identification.

The technical representative instructed the implementer to report to USAID on the costs, benefits, and feasibility of requiring recipients of program assistance to possess

a national identification (ID) card, and the implementer responded with its revised policy on identification cards. In addition, it has taken the following steps to ensure that assistance is not provided to the same beneficiaries more than once:

All program beneficiaries are asked to present their national ID card when the implementer's staff conducts the family assessment. The national ID card number is recorded in the program's grants database following the interview. If beneficiaries do not possess a national ID card, implementing staff members ask them to obtain one as soon as possible and request that the beneficiaries to produce another form of identification.

Program staff search the implementing database by ID number, name (including father's name), and location (village) before issuing new grants to avoid any duplication.

This recommendation is closed.

7. That USAID/Afghanistan require that the International Organization for Migration review its procedures on the distribution of education and tailoring kits to program beneficiaries, under the Afghan Civilian Assistance Program, to determine whether the kits are being distributed expeditiously and, if not, initiate actions to remedy the distribution.

The technical representative instructed the implementer to develop a plan for preordering and prepositioning standard forms of assistance, including education and tailoring kits. Following this instruction, the implementer reviewed its procedures and determined that the procurement process was the primary cause of its inability to expeditiously distribute assistance kits. The implementer provided a revised policy on preordering and prepositioning standard forms of assistance and signed long-term agreements with various local vendors. To attract possible bidders, implementers provide an estimate for the total value of the business.

The long-term agreements are valid for 6 months. After 6 months, depending on the performance of the vendors, the implementer will conduct another bid or negotiate with existing vendors to renew the agreements under the same prices, terms, and conditions.

This recommendation is closed.

**Audit of USAID/Afghanistan's Power Sector Activities Under Its
Afghanistan Infrastructure Rehabilitation Program
(No. 5-306-10-002-P)**

Date: November 10, 2009

Implementing Partner: Louis Berger Inc./Black and Veatch Special Projects Corp. Joint Venture

Audit Period: January 2007 through April 2009

Funding: As of April 30, 2009, the combined ceiling price for these two task orders was \$305.5 million, and USAID/Afghanistan had obligated \$290.8 million and expended \$249.6 million for the two projects

Background—Summary of Findings

Providing electrical power to the Afghan population is crucial to Afghanistan's development. As a key to political stability, sufficient, reliable electrical power is especially important for both the capital city of Kabul and the southern agricultural provinces of Helmand and Kandahar. To improve the availability of electricity in these areas, USAID/Afghanistan awarded two major task orders under its Afghanistan Infrastructure Rehabilitation Program to the Louis Berger Inc./Black and Veatch Special Projects Corp. Joint Venture.

OIG's audit report highlighted problems faced by two power projects in Afghanistan—building a 105-megawatt plant in Kabul and making improvements in the Kajakai Dam—which were intended to supply power to key cities and provinces.

The audit concluded that, because of construction delays, USAID had not increased reliable power supplies to these two areas within the planned timeframes. For the Kabul power plant, the delays were caused by an initial inability to obtain adequate title to land for the power plant, an ambiguous statement of work resulting in poor planning and implementation, subcontractor performance problems, a lack of onsite quality assurance, and problems clearing equipment and material through customs. For the Kajakai Dam project, deteriorating security in southern Afghanistan and inconsistent contractor performance contributed to the delay.

By May 2009, the USAID-funded projects had completed construction of generators with the ability to produce only 12 megawatts of power out of the original goal of 140 megawatts—and this increase in power had not actually been delivered to the Afghan population. As a result, the economic benefits anticipated for Kabul and the southern provinces of Helmand and Kandahar were not being realized. Additionally, the contractor

estimated that cost overruns attributable to the delays would amount to \$39 million in order to complete the Kabul power plant by December.

The audit also found that the host government may not be able to afford to operate the Kabul power plant because of the rising cost of diesel fuel and the government's inability to collect revenue for the generated electricity. Further complicating operation of the power plant is the configuration of the Kabul transmission system, which does not allow for the use of other power sources at times of year when those power sources are more competitive.

With regard to subcontractor performance on the Kabul power plant, the audit found that the contractor had charged USAID for subcontractor costs that the contractor had not paid the subcontractor. The contractor had not paid these costs because of disputes and questionable claims in subcontractor invoices. The total amount the contractor received from USAID for these questionable costs (including contractor overhead, fixed fees, and imputed interest) amounted to an overbilling of USAID by \$2.1 million.

As for the Kajakai Dam project, the original subcontractor left after its personnel received kidnapping threats, and the project cannot be completed until a new subcontractor is selected. USAID will have to continue paying the fixed costs of securing and maintaining the facility until work on the plant can be resumed. These fixed costs amount to an estimated \$1 million per month, even though none of the 35 extra megawatts of power has been delivered.

Recommendations—Management Decisions

The Office of Inspector General audit report made eight recommendations:

1. That USAID/Afghanistan require that its training on statement-of-work preparation be provided to all new COTRs.

USAID is in the process of establishing the appropriate contractual mechanisms for COTRs to receive statement of work training. This course is intended to improve the COTRs' capacity in both technical writing and the review of statements of work, and it will be provided to all new COTRs. This recommendation remains open.

2. That USAID/Afghanistan develop procedures, such as the use of quality control checklists, to ensure that statements of work include such critical elements as clear deliverables with specified due dates.

The contracting officer for the Office of Infrastructure, Engineering and Energy (OIEE) issued a statement of work template to all OIEE COTRs in June 2009. The template serves as a quality control checklist that describes the required elements for the statement of work and provides detailed instruction for preparing each section. This recommendation is closed.

3. That USAID/Afghanistan establish procedures requiring that a labor skills assessment be performed by a contractor, either upon award of a construction contract or upon the award of a task order under the contract. The assessment would include, as appropriate but not limited to, the availability of qualified local labor, vocational training needed to cultivate local labor, and plans to coordinate with the mission to obtain appropriate visas for non-Afghan labor.

Workforce capacity in designing infrastructure projects is being assessed, and new mission staff will be hired to perform preaward surveys of potential contractors and their proposed personnel. However, the mission does not agree that a blanket procedure should be put in place that requires contractors to perform a labor skills assessment. Meaningful labor assessments are difficult to maintain in Afghanistan, given the fluidity of the workforce and the high demand for skilled labor. Instead, the mission expects to use preaward personnel surveys to help verify the availability of qualified staff proposed by the contractor. This recommendation is closed.

4. That USAID/Afghanistan establish written procedures to ensure that all significant construction projects have onsite quality-assurance engineers.

On November 22, 2008, the Office of Acquisition and Assistance (OAA) issued a notice requiring all offices to ensure that a quality-assurance surveillance program is included during the construction of vertical structures. To cover the road and power construction activities, OAA will issue a similar notice that will define the technical standards to be observed and require quality-assurance monitoring during construction. This recommendation remains open.

5. That the mission develop an overall implementation plan for the Kabul power plant project that incorporates updated construction schedules for the contractor and subcontractor, identifies delays in critical tasks, and establishes steps to keep the project on track.

At the October 4, 2009, management meeting for the Infrastructure Rehabilitation Program, the contractor presented a detailed construction schedule and discussed how progress on each of the project components is being tracked against the schedule, on the basis of staff utilization. To provide an independent assessment of the progress of work, the mission has tasked the Human Resource and Logistical Support Program to monitor work progress and to bring to the mission's attention possible constraints in meeting the schedule. In addition, the COTR conducts weekly visits to the project to review the existing construction schedule, identify delays in critical tasks, and determine next steps. The contractor provides daily reports on the project status. This recommendation is closed.

6. That USAID/Afghanistan develop a comprehensive sustainability plan that includes considerations for anticipated fuel purchases as well as the impact and timing of future mission projects affecting the 105-megawatt plant.

A plan to improve long-term plant performance and to implement a training program to develop local skills and expertise in plant operation and maintenance is being developed. The Afghan Government has provided 50,343 liters of fuel to operate the plant and has established the new national electricity corporation, Da Afghanistan Breshna Sherkat (DABS), which lays the foundation for commercializing the country's energy sector and improving services for the Afghan people. USAID is implementing the Kabul Electricity Directorate (KED) commercialization contract to improve the commercial performance of the KED so that it can operate on a full-cost recovery basis assuming that by 2012, this contract results in a reduction in system losses and increase in collections and revenues to be directed toward fuel purchases. This recommendation is closed.

7. That USAID/Afghanistan prepare a detailed implementation plan that documents the current status of the Kajakai project and explains how the mission intends to proceed with installation of turbine 2, including potential barriers to successful installation of the turbine and contingency plans to overcome these barriers.

Installation of turbine 2 will be delayed because of the volatile and dangerous security environment, which is preventing ground transportation of necessary equipment and material to the site and construction of a new transmission line. Insurgents control the area, and the U.S. military expects that it will be several years before the Afghan National Army and coalition forces can secure the 87-kilometer route 611 from the Ring Road to Kajakai. The mission will continuously monitor and assess the security situation to determine whether it is feasible to proceed with the installation of turbine 2; however, until the security situation becomes sufficiently stable for work to continue on the Kajakai turbine 2 installation, work on the project is suspended. This recommendation remains open.

8. That USAID/Afghanistan recover at least \$2.1 million (including interest imputed through May 13, 2009) from the contractor.

USAID/Afghanistan has recovered the amount owed from the contractor. This includes \$2,042,680 that was billed for collection and \$35,746 in accrued interest. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2009

Audit of USAID/Afghanistan's Land Titling and Economic Restructuring in Afghanistan Project (No. 5-306-09-004-P)

| | |
|------------------------------|--|
| Date: | June 8, 2009 |
| Implementing Partner: | Emerging Markets Group, Limited |
| Audit Period: | September 2004 to September 2008 |
| Funding: | As of September 30, 2008, \$45.9 million had been obligated and \$37.7 million disbursed |

Background—Summary of Findings

In September 2004, USAID awarded a 3-year, \$29.2 million task order contract to Emerging Markets Group, Limited (EMG), under the Support for Economic Growth and Institutional Reform Privatization II Indefinite Quantity Contract. In October 2007, after the initial project implementation, USAID extended the task order for an additional 2 years to 2009 and increased the estimated costs to \$56.3 million to further expand the project activities in 22 provinces. The project has two components. The first focuses on land titling and registration to help the Government of Afghanistan improve land tenure security in urban areas, with the ultimate goal of introducing a consolidated land administration system in Afghanistan. The second focuses on privatizing state-owned enterprises.

The audit found that, as a whole, the project had achieved positive results under both components. Under the first component, the project laid a foundation that could benefit the Government of Afghanistan's land administration system. Under the second component, in the first 3 years, the project provided technical assistance toward liquidating 23 state-owned enterprises, 3 state-owned banks, and 1 state-owned corporation. As a result, state-owned assets valued at \$10.6 million have been auctioned to successful bidders.

The audit also found that the liquidation process had taken longer than expected and that the State-Owned Enterprise Department had lacked the capacity to manage the liquidation process. Furthermore, OIG found that USAID's investment in privatization had not always been successful and that more collaboration was needed to strengthen the project's impact.

Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID, in collaboration with EMG and the Ministry of Finance, develop a plan to redirect remaining resources toward achieving the best results by the end of the contract. The plan should take into account the complexity of the outstanding issues that are barring final resolution and include a realistic assessment of what tasks can be completed by the end of the contract.

The Land Titling and Economic Restructuring in Afghanistan Project (LTERA) developed a work plan from March to September 2009, which was reviewed by the Minister of Finance and endorsed by the Deputy Minister of Finance. The COTR will oversee LTERA's continued implementation of the work and training plan until project completion. This recommendation is closed.

2. That USAID, in collaboration with EMG and the Ministry of Finance, develop and implement a training strategy to provide a core group of State-Owned Enterprise Department employees with the expertise to help them carry out their roles and responsibilities on the project team.

A work and training plan was formulated and endorsed by Afghanistan's Deputy Minister of Finance. This recommendation is closed.

3. That USAID assess the feasibility of coordinating with other donors to improve the infrastructure and quality of life within the informal settlements.

Since November 2008, LTERA has intensified its contacts with other donor-funded projects and agencies. LTERA helped establish the Informal Settlements Upgrading Steering Committee, chaired by the Minister of Urban Development, which is intended to coordinate and harmonize strategies of urban regularization and upgrading throughout the country. LTERA has met with representatives of major donors funding the reconstruction of Afghanistan along with USAID—the Australian Government Overseas Aid Program, the United Kingdom's Department for International Development, the World Bank, and the Japan International Cooperation Agency. The mission has agreed to the feasibility of coordination with other donors to improve the infrastructure and quality of life within the informal settlements. Specific actions have been taken and an action plan is being implemented. This recommendation is closed.

4. That USAID determine whether these unfinished tasks will have a negative impact on the project if left undone. If the mission believes that the tasks should be completed according to the original agreement, the Contracting Office should direct EMG to complete the tasks; otherwise, USAID and EMG should formally modify the contract.

At the beginning of the project, mission and project personnel mutually decided that some activities outlined in the scope of work were not going to have a significant

impact on the overall outcomes and that resources could be better directed. This recommendation is closed.

**Audit of USAID/Afghanistan's
Local Governance and Community
Development Project in
Southern and Eastern Regions of Afghanistan
(No. 5-306-09-003-P)**

| | |
|------------------------------|--|
| Date: | May 11, 2009 |
| Implementing Partner: | Development Alternatives, Inc. |
| Audit Period: | October 2006 to August 2008 |
| Funding: | As of August 31, 2008, \$119 million had been obligated and \$41 million disbursed |

Background—Summary of Findings

USAID awarded a \$95 million contract (subsequently increased to \$164 million) to Development Alternatives, Inc. (DAI), to implement the Local Governance and Community Development Project in the southern and eastern provinces. This project was intended to assist the provincial governments and improve stability within the provinces. The project had four main components: (1) supporting local public administration and governance, (2) promoting community mobilization and development, (3) aiding local stability initiatives, and (4) providing expertise to support the provincial reconstruction teams' (PRTs') mandate.

The audit disclosed that the project had experienced severe delays. In addition, the audit determined that the contractor needed to improve its monitoring and evaluation system and the mission needed to refine its operational plan indicators and promptly approve annual contractor work plans. Furthermore, the contractor did not properly establish performance targets for the 14 key indicators in its performance monitoring plan for FY 2008.

The project achieved some planned results, such as on-the-job training for government staff, assistance to ministries in preparing solicitations for donor funds, and construction of a school in the Nangarhar Province that brought two competing tribes together for a common project.

Recommendations—Management Decisions

The audit report made 12 recommendations:

1. That USAID, in order to prevent additional delays, develop contingency plans on how it intends to complete construction of buildings before the end of the contract.

In November 2008, USAID instructed DAI to stop the work on construction of all new government buildings and limit construction to renovations of existing buildings. The LGCD contract was extended 60 days to allow adequate time for all projects to be completed. This recommendation is closed.

2. That USAID develop a detailed implementation plan that identifies the activities it can successfully complete by the end of the project and explains how it intends to use unexpended funds.

The COTR initiated a two-step project development process that requires more planning before a project is approved. The new process ensures that projects have local support and can be implemented quickly and safely once approved. USAID is confident that all funds will be spent by December 2009. However, if any funds remain, they will be deobligated from LGCD and used to fund a new, follow-on project that USAID is designing in the same province. This recommendation is closed.

3. That USAID develop procedures to provide training to all new and existing field program officers as to their roles and responsibilities.

All existing field program officers (FPOs) attend USAID COTR training during their tours. The LGCD COTR is working with the contracting officer to draft specific "activity manager" memorandums that outline each FPO's roles and responsibilities as they relate to the project. The COTR has designed an LGCD orientation session for each new FPO. USAID is developing a U.S.-based orientation course to familiarize incoming FPOs with USAID culture, rules, and regulations. This recommendation is closed.

4. That USAID develop procedures requiring technical review of statements of work for specificity to assist in project implementation.

USAID/Afghanistan issued a mission notice requiring technical review of all statements of work. The review will occur either at the time of the activity approval or at the time of the modified acquisition and assistance request document. This recommendation is closed.

5. That USAID establish procedures for subproject development and approval of component 3 activities and communicate these to DAI and the mission's development adviser.

The COTR has worked with DAI to develop a "toolkit" and action plan for the development and approval of component 3 activities (local stability initiatives). This toolkit specifies intervention criteria for subprojects, gives examples of interventions, and describes mechanisms for implementing these interventions. This recommendation is closed.

6. That USAID develop procedures for providing training to existing and new development advisers on their roles and responsibilities as they relate to program implementation.

USAID is developing a U.S.-based orientation course to address the roles of FPOs and development advisers in program implementation and their relationship with the COTRs. Development advisers are not activity managers for the LGCD program and no longer have responsibilities related to program implementation. However, they will attend all the training that has been instituted for the FPOs. This recommendation is closed.

7. That USAID review DAI's draft performance monitoring plan for compliance with contract terms and approve the performance monitoring plan once all terms have been met.

The draft performance monitoring plan was approved by the COTR in November 2008 and is fully operational. DAI's internal systems and data collection procedures have been updated, and all current and past subprojects are now measured against this new plan. This recommendation is closed.

8. That USAID's COTR direct DAI to develop standardized procedures for data collection and retention.

The COTR for LGCD has been working with DAI to develop standardized procedures for data collection and retention, and these procedures are now in place. This recommendation is closed.

9. That USAID's COTR obtain an implementation plan from DAI that requires completion of the reprogramming of its automated system by April 30, 2009.

DAI's automated system was fully reprogrammed as of February 2009. This system now includes indicator data for all subprojects as well as data source documents (e.g., training attendance sheets and handover documents), and monitoring reports are now attached to more than 90 percent of all subprojects. This recommendation is closed.

10. That USAID establish procedures to review operational plan indicators to ensure that targets with input from multiple implementers are developed by each implementer and then consolidated.

The mission has issued a mission directive that sets forth the responsibilities for review and approval of performance monitoring plans and the establishment of indicators. This recommendation is closed.

11. That USAID/Afghanistan develop procedures to ensure that operational plan indicators represent how funds are being expended.

The mission has issued a mission directive that sets forth the responsibilities for review and approval of performance monitoring plans and the establishment of indicators. This recommendation is closed.

12. That USAID review the operational plan indicators for the LGCD project and either develop customized indicators or select additional common indicators to reflect more accurately the project's expenditure of funds.

The PRT Office is working with USAID/Washington's Conflict Mitigation and Management Office to develop customized indicators that more accurately reflect the goals of the project. This recommendation remains open.

Audit of USAID/Afghanistan's Higher Education Project (No. 5-306-09-002-P)

| | |
|------------------------------|---|
| Date: | December 4, 2008 |
| Implementing Partner: | Academy for Educational Development |
| Audit Period: | January 2006 to June 2008 |
| Funding: | As of June 30, 2008, the mission had obligated \$23 million and disbursed \$14 million in support of this project |

Background—Summary of Findings

USAID/Afghanistan's Higher Education Project involves a 5-year agreement between USAID and the Government of Afghanistan to develop a better educated population in that country. A \$38 million cooperative agreement was awarded to the Academy for Educational Development (AED) to implement the project.

Specifically, the project set out to transform instructional methods in 16 postsecondary institutions and to institutionalize structures and systems to sustain high-quality instruction and professionalism. At the end of the project in 2014, the institutions will be expected to take full responsibility for the reform systems and teacher training.

Thus far, the project has achieved some of the intended results. Training was provided in teaching methods, basic information technology skills, and graduate-level education, along with workshops and seminars on institutional and leadership development. The project initiated a master's degree program and trained several candidates in the United States. Faculty members who participated in the project's activities were exposed to new and more effective teaching methodologies in their classes, and they advanced their English-language skills. Moreover, they had greater access to training and educational materials not available in their local language.

Despite these accomplishments, the audit identified three areas that, if not addressed during the second half of the project, will threaten the sustainability of the project's results. In addition, the audit identified that the mission's technical oversight of the project has fallen short of what is required by the agreement and USAID's policies.

Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID/Afghanistan determine the key indicators to measure and report results and revise the indicators at the implementer level, the mission level, or both to more accurately link the activity data to the mission's planned results.

The mission stated that USAID reached an agreement with the Academy for Educational Development to jointly define critical performance indicators, incorporate

data collection directly into the acquisition mechanism, and put in place a revised monitoring and evaluation (M&E) plan that would more accurately link activity data to the mission's planned results. A revised M&E plan was submitted to USAID on January 22, 2009, and formally approved on April 6, 2009. This recommendation is closed.

2. That USAID/Afghanistan intervene with the Ministry of Education and Ministry of Higher Education to reach an agreement on appropriate collaborative actions to further the higher education project.

The mission stated that initial efforts to establish cooperation between the Afghan Ministries of Education and Higher Education took place during the project-sponsored Teacher Standards Conference held November 17 and 18, 2008. Representatives from both ministries attended, as well as rectors from the 16 pedagogical universities and Kabul Education University. A memorandum of understanding among the Ministries of Education and Higher Education, the implementer, and USAID confirming the adoption of secondary and higher education standards of teacher education has been completed. This recommendation is closed.

3. That USAID/Afghanistan collaborate with AED and applicable Afghan universities to develop an exit strategy so that key services of professional development centers will continue after project completion.

AED and USAID/Afghanistan have begun a series of meetings designed to devise a mechanism for ensuring the sustainability of each of the 16 professional development centers. The centers are expected to be operational by January 31, 2011.

A consortium meeting involving program partners was held from November 12 to November 13, 2008, to discuss development of a comprehensive sustainability plan. The draft exit strategy was submitted to the mission on December 28, 2008. This recommendation is closed.

4. That USAID/Afghanistan implement appropriate procedures to strengthen (1) project monitoring, (2) review and approval of project documents, and (3) maintenance of the cognizant technical officer (CTO) project file for the Higher Education Project.

The mission stated that the short-term staff assignments prevalent in Afghanistan prevent a CTO's term of more than 1 year. The mission also acknowledges that CTO turnover for the project has been unacceptably high, and it will make every effort to curtail turnover. The mission anticipates that the current CTO will remain in place until August 2009. It is expected that a longer-term CTO will alleviate the project management issues cited by the audit. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2008

Audit of USAID/Afghanistan's Capacity Development Program (No. 5-306-08-012-P)

| | |
|------------------------------|---|
| Date: | September 30, 2008 |
| Implementing Partner: | BearingPoint, Inc. |
| Audit Period: | February 2, 2007, to March 31, 2008 |
| Funding: | As of March 31, 2008, USAID had obligated \$49.6 million and disbursed \$24.4 million |

Background—Summary of Findings

Capacity building is needed in almost every sector in Afghanistan in order to rebuild and promote economic expansion. In February 2007, USAID/Afghanistan awarded a \$218.6 million contract to BearingPoint, Inc., to implement the Capacity Development Program with an expected end date of 2012. USAID intended the program to be a broad, crosscutting capacity-building initiative to support all of the mission's objectives. The program aims to strengthen Afghan capacity-building institutions; build near-term capacity with target institutions in the public, private, and educational sectors; and develop a critical mass of Afghans trained in management and other basic skills. These goals are expected to be accomplished through a combination of training and technical assistance.

The audit found insufficient evidence to demonstrate that the program was on track to achieve planned results. Specifically, the program lacked key deliverables necessary for effective implementation, monitoring, and reporting of program activities and results, such as work plans and results monitoring plans with performance indicators and targets. Given these shortcomings and the fact that the contract had been in place for just over 1 year, OIG was unable to assess the program's impact.

Moreover, the contractor and the mission spent an inordinate amount of time attempting to define the program's activities and priorities and implementing tasks that did not always appear to contribute directly to the overall program. For example, the contractor, at the direction of USAID, was paying the salaries for approximately 460 employees of Afghanistan's Ministry of Education, which would amount to \$11.1 million over a 2-year period. Because the contractor did not have a detailed work plan identifying the specific activities it intended to implement for the program's participant training component, OIG questioned whether the program would achieve its intended objectives under this component, which according to the contract was to constitute almost two-thirds of the program's funding.

In addition, the audit report addresses the contractor's lack of the required approved branding implementation and marking plan. USAID policy requires that contractors develop a plan to describe how the program will be promoted to beneficiaries and host-country citizens. The branding implementation plan requires key milestones or opportunities anticipated to generate awareness that the program, project, or activity is from the American people.

Further, contractors are to develop a marking plan to ensure that programs, projects, activities, public communications, or commodities implemented or delivered under contracts and subcontracts funded only by USAID are marked exclusively with the USAID identity. These requirements were included in the Capacity Development Program contract.

Recommendations—Management Decisions

The audit includes four recommendations:

1. That USAID direct the contractor to develop a detailed work plan to align with expected results for FY 2009 and require the contractor to submit the work plan 15 days prior to the start of the fiscal year, as required by the contract.

The mission stated that on September 1, 2008, it had directed the contractor to submit the draft work plan 15 days prior to the start date of FY 2009, as required by the contract. The draft work plan for FY 2009 was submitted by the contractor on September 14, 2008. This recommendation is closed.

2. That USAID direct the contractor to put in place an approved results monitoring plan to measure the progress and results of the activities detailed in the work plan addressed in the previous recommendation.

The mission approved the performance management plan (2008–12) on September 6, 2008, and the mission has put in place an approved results monitoring plan for FY 2009 to measure the progress. This recommendation is closed.

3. That USAID reevaluate the appropriateness of funding salaries for approximately 460 of Afghanistan's Ministry of Education employees through the Capacity Development Program.

In the short term, USAID believes that supporting these technical advisers in the Ministry of Education in combination with an intensive training component does have merit and does contribute to the core capacity-building objective of this contract. The mission and contractor are taking various steps to evaluate, implement, and improve training. This recommendation was closed upon the report's issuance.

4. That USAID/Afghanistan take immediate action to approve and ensure implementation of a branding implementation and marking plan under its Capacity Development Program.

The mission approved the branding implementation and marking plan under its Capacity Development Program on September 17, 2008. Therefore, this recommendation was closed upon report issuance.

Audit of USAID/Afghanistan's Accelerating Sustainable Agriculture Program (No. 5-306-08-009-P)

| | |
|------------------------------|---|
| Date: | August 8, 2008 |
| Implementing Partner: | Chemonics International, Inc. |
| Audit Period: | November 2006 to December 2007 |
| Funding: | As of November 2007, the contract ceiling was increased to \$102 million. As of December 31, 2007, USAID had obligated \$77 million and disbursed \$16 million. |

Background—Summary of Findings

Afghanistan, a country that once had a strong agricultural sector, has become dependent on international food aid. To deal with ongoing political instability and economic hardship, farmers turned to the cultivation of opium poppies to provide necessary income. In an effort to respond to this agricultural crisis, USAID/Afghanistan launched its Accelerating Sustainable Agriculture Program in the northern, northwestern, and western provinces. The intent of the program was to accelerate broad-based, market-led agricultural development that is capable of responding and adapting to market forces and, in the process, provide new economic opportunities for rural Afghans.

OIG conducted an audit of USAID's efforts in August 2008. Because the program had begun on November 22, 2006, it was too early to judge whether it was succeeding in accelerating broad-based, market-led agricultural development in areas of Afghanistan where it is being implemented. However, the audit identified the following issues that affected the mission's management of the program during the first year:

- The Mazar Foods Initiative—a key agricultural activity—experienced significant delays.
- Environmental evaluations and assessments were not conducted in accordance with regulations.
- Significant defects in constructed buildings have delayed handover to the Government of Afghanistan.
- The contractor did not comply with USAID's branding and marking requirements, have adequate support for reported results, receive prior written approval to purchase restricted commodities, provide performance reports that were in accordance with contract terms, or properly account for program income.
- The USAID mission approved an incomplete performance management plan.

Recommendations—Management Decisions

OIG issued 15 recommendations:

1. The USAID/Afghanistan CTO should prepare an implementation plan identifying the critical tasks needed to implement the Mazar Foods Initiative. This implementation plan should identify all tasks that are behind schedule and show how the mission is going to address the delay. Further, the mission should develop a process for periodically updating the implementation plan.

The mission agreed with the recommendation. Prior to the issuance of the audit, the Mazar Foods Initiative had an implementation plan in place. The mission stated that any outstanding delays were associated with obtaining an Overseas Private Investment Corporation loan and that it would direct Chemonics to resubmit an updated implementation plan when program plans change. This recommendation is closed.

2. USAID/Afghanistan should require its environmental officer to provide annual training to CTOs and require mission personnel to comply with the environmental regulations outlined in Mission Order 04-14 and USAID's Automated Directives System 204.

The mission agreed with the recommendation and has completed written procedures. This recommendation is closed.

3. USAID/Afghanistan should revise its mission order to be consistent with USAID's Automated Directives System 204 defining CTO responsibilities for monitoring compliance with environmental regulations.

The mission has issued written procedures. This recommendation is closed.

4. USAID/Afghanistan should obtain a written legal decision from its general counsel on how to proceed for completed and in-process projects in which environmental regulations were not followed.

The mission consulted with the USAID/Afghanistan Legal Advisor, the USAID Office of the General Counsel, and the USAID Agency Environmental Coordinator. In accordance with 22 CFR 216.3(a)(7), USAID stated that it would require the contractor to conduct the environmental review of the ongoing or completed subprojects or aspects thereof, as required by the Initial Environmental Evaluation for the SOAG. USAID would also require the contractor to take any mitigating measures developed as a result of the review. This recommendation is closed.

5. USAID/Afghanistan should prepare procedures requiring review of construction design plans and provide quality assurance oversight by the Office of Infrastructure, Engineering and Energy.

The mission has completed the written procedures. This recommendation is closed.

6. USAID/Afghanistan should require engineers from the Office of Infrastructure, Engineering and Energy to work with Chemonics to take corrective action on each of the construction defects and to require these engineers to be part of the final inspection.

USAID instructed Chemonics International to demolish/reconstruct the Parwan, Panjshir, and Kunduz buildings and to demolish/rehabilitate the Mazar and Heart buildings, and Chemonics agreed to comply with the contracting officer's instructions. Chemonics International will collaborate with USAID in the reconstruction and rehabilitation of the buildings. USAID has issued a mission directive to ensure that engineers are involved so that the projects meet all building requirements. This recommendation is closed.

7. USAID/Afghanistan should reevaluate Chemonics' March 2008 revised marking and branding plan and make a determination whether to approve any exceptions to marking requirements included in the plan.

The mission agreed with the recommendation. A revised marking and branding plan was approved by the contracting officer, and the contract was modified on October 13, 2008. This recommendation is closed.

8. USAID/Afghanistan should develop procedures requiring CTOs to verify and document, as part of their site visits, that items purchased or built with USAID funds are properly marked.

The mission agreed with the recommendation and issued a May 12, 2008, mission order that addresses CTO certification of contractor/recipient compliance with delivery requirements under their respective awards. Marking of the items purchased or built with USAID funds is part of the delivery requirement. This recommendation is closed.

9. USAID/Afghanistan's CTO should issue a technical directive that requires Chemonics to define the roles and responsibilities of the monitoring and evaluation staff, to include a system to ensure that the program's data is accurate and easily accessible.

The mission agreed with the recommendation and had Chemonics submit a revised performance management plan. The revision was sent to the CTO on July 17, 2008. The mission did not believe that an additional technical directive was necessary, since the response to the recommendation was included in the July 17, 2008, performance management plan. This recommendation is closed.

10. USAID/Afghanistan's CTO should require Chemonics to perform a data quality assessment before the issuance of the next annual report.

A data quality assessment was completed by the Alternative Development and Agriculture (ADAG) Monitoring and Evaluation Staff of the Accelerating Sustainable Agriculture Program, jointly undertaken with Chemonics. The data quality assessment checklists for the program's 21 performance indicators were approved by the mission in November 2008. The mission has determined that, in order to increase the level of monitoring and evaluation of all ADAG programs, an annual program statement will be issued. An independent third party will be made available to provide monitoring, evaluation, and DQAs for various projects, which will include random sampling for onsite, field verifications of activity data indicators, and reported outcomes. This recommendation is closed.

11. USAID/Afghanistan should determine the allowability and collect as appropriate \$37,573 for commodities purchased by Chemonics without prior written approval from the mission.

The mission agreed with the recommendation. It obtained a letter from Chemonics dated May 31, 2008, stating that the contractor would credit all program income, including the questioned amount, to the contract. The mission stated that it would evaluate new invoices to ensure Chemonics' compliance. In addition, Chemonics has established a separate bank account and separate expense books to account for program income. This recommendation is closed.

12. USAID/Afghanistan's CTO should issue a technical directive to require Chemonics to identify in its invoices costs associated with restricted commodities.

The mission agreed with the recommendation. In a CTO meeting with ASAP on July 11, 2008, ASAP agreed to begin identifying restricted commodity purchases in its monthly invoices. USAID stated that it would verify compliance with the requirement in Chemonics' July 2008 invoice. Since ASAP agreed to the monthly invoice changes as recommended, the mission felt that a separate technical directive was not necessary. This recommendation is closed.

13. USAID/Afghanistan should direct Chemonics to reduce future billings to USAID by \$129,731 for program income collected as of March 31, 2008, and comply with the terms of the contract for any income received after March 31, 2008.

USAID sustained the total \$129,731 in questioned program income and has recovered the costs from Chemonics. This recommendation is closed.

14. USAID/Afghanistan should develop procedures requiring the Program and Project Development Office to review performance management plans of contractors and grantees for compliance with USAID's Automated Directives System 203 prior to approval by the CTO.

The mission has completed written procedures. This recommendation is closed.

15. USAID/Afghanistan should determine the nature, format, and timing of the reports required to monitor contract performance effectively and align the contract reporting requirements to these expectations.

The mission agreed with the recommendation. The contracting officer and CTO have already addressed these concerns in a draft modification to the ASAP contract. Thus, a management decision was made in August 2008. This recommendation is closed.

Audit of USAID/Afghanistan's Small and Medium Enterprise Development Activity (No. 5-306-08-006-P)

Date: June 23, 2008
Implementing Partner: Development Alternatives, Inc.
Audit Period: January to December 2007
Funding: As of December 31, 2007, \$20.4 million had been obligated and \$13.2 million disbursed.

Background—Summary of Findings

USAID awarded a \$36.8 million contract to Development Alternatives, Inc., to implement the Afghanistan Small and Medium Enterprise Development Activity. This project was intended to support the rapid transition of Afghanistan to a more stable and productive state by promoting sustainable economic and social development. The project had several goals: promoting a thriving licit economy led by the private sector, working with the Government of Afghanistan to develop sound economic governance, and partnering with the private sector to stimulate investment and business opportunities.

One of the problems that the audit disclosed was the unreliability of the contractor's performance data. Auditors were unable to determine whether the majority of performance indicators (11 out of 18) were showing results because of a lack of proper management controls, which in turn produced overstated project results. Moreover, the audit documented a need for a Web-based management information system and realistic project goals.

Recommendations—Management Decisions

The audit report made four recommendations:

1. That USAID require its CTO to work with the contractor to refine the project database and eliminate duplicate records, as well as to ensure that the data in the project database are reliable.

On May 21, 2008, a mission-hired expert determined that the contractor had effectively corrected the duplication errors and developed a productive and comprehensive method of reducing duplications and identifying those that occur. This recommendation is closed.

2. That USAID require the contractor to develop a plan of action to implement a Web-based information system.

The mission and contractor worked together to develop the recommended plan of action, which included training for monitoring and evaluation staff, creation of a

user's manual, and planned visits to regional offices for data verification and oversight. This recommendation is closed.

3. That USAID require the CTO to provide technical direction to the contractor in updating the performance management plan, redefining performance indicators and targets, and redirecting resources to areas where more of an impact can be made.

The mission has developed the recommended plan of action to modify the contract to better align the scope of work with the current situation in Afghanistan and to develop a new performance monitoring plan. The new plan will be discussed with the Office of Program and Project Development to ensure consistent monitoring and evaluation of the activity. This recommendation is closed.

4. That the CTO formally approve the revised performance management plan.

The mission's CTO formally approved the updated performance monitoring plan, and the recommendation was closed in October 2008. This recommendation is closed.

Audit of USAID/Afghanistan's Alternative Development Program—Southern Region (No. 5-306-08-003-P)

Date: March 17, 2008

Implementing Partner: Chemonics International, Inc.

Audit Period: February 2005 to September 2007

Funding: As of September 30, 2007, USAID/Afghanistan had obligated \$76 million and disbursed \$60 million for the Alternative Development Program—South.

Background—Summary of Findings

In February 2005, USAID awarded a 4-year, \$120 million contract to Chemonics International, Inc., to implement Alternative Development Program—South in the Helmand, Kandahar, and Uruzgan Provinces. In May 2007, supplemental funding raised the contract ceiling to \$166 million. The program has two objectives: (1) to help accelerate licit economic growth and business activity in selected provinces in which poppy cultivation is thriving and (2) to help provide an immediate alternative source of income to poor households whose livelihoods depend, directly or indirectly, on the opium economy.

The mission exceeded its planned targets for six of the indicators, partially achieved its target for eight indicators, and did not achieve its target for one indicator. The mission's efforts have had little impact on the overall U.S. strategy for reducing poppy production in Afghanistan.

The program could have been more successful had it started when originally planned. Chemonics evacuated in May 2005 because of security issues and did not return until September 2005. The mission did not approve the Chemonics work plan until February 2006, focusing on long-term planning rather than rolling out program activities. Chemonics and the mission experienced turnover in critical program positions. As a result, the program missed the opportunity to induce more Afghans not to plant poppies in the fall of 2005 by providing them with immediate alternative sources of income.

Recommendations—Management Decisions

OIG recommended that the mission develop procedures setting requirements to ensure the timely review and approval of work plans.

On March 12, 2009, a mission notice was issued, providing the necessary guidelines to ensure CTOs' adherence to annual work plan submittal and approval requirements. This recommendation is closed.

Audit of USAID/Afghanistan's Agriculture, Rural Investment, and Enterprise Strengthening Program (No. 5-306-08-001-P)

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|-------------------------------|---|
| Date: | January 22, 2008 |
| Implementing Partners: | Academy for Educational Development, et al. |
| Audit Period: | September 16, 2006, to September 30, 2007 |
| Funding: | As of September 2006, the Academy for Educational Development was awarded a 3-year, \$80 million cooperative agreement. As of September 30, 2007, \$54 million had been obligated and \$30 million had been disbursed for program activities. |

Background—Summary of Findings

In September 2006, USAID awarded a 3-year contract to the Academy for Educational Development (AED) to implement the Agriculture, Rural Investment and Enterprise Strengthening (ARIES) Program. The overall purpose of the program was to provide expanded access to rural financial services, primarily in alternative development program regions' key poppy-growing provinces, and to create a strong private sector foundation to provide a spectrum of substantial financial services. USAID/Afghanistan's Alternative Development Program (ADP) was to have included activities to accelerate legitimate economic growth in key poppy-growing provinces by creating or strengthening credit and financing institutions. However, credit and financing activities were not implemented under the program because of contract restrictions, which prevented issuing grants to fund such activities.

The audit found that in its first year the ARIES Program had achieved or exceeded most of its goals and had helped make a significant impact in expanding Afghanistan's licit rural economy by creating nearly 63,000 jobs. Despite these achievements, OIG found that the ARIES Program could have been more successful with implementing small and medium enterprise program loan segment activities and investment and finance cooperatives (IFCs). OIG also found several areas in which the implementation and management of the program could be improved.

Recommendations—Management Decisions

This report made six recommendations to help USAID/Afghanistan improve its oversight of the ARIES Program in the remaining 2 years of the cooperative agreement:

1. AED is required to make clear to its partners that the ARIES Program is to be implemented primarily in ADP regions and to dovetail with regional ADP priorities.

The mission informed AED that it should emphasize to its partners the importance of reports and publications that accurately reflect the priority given to ADP regions and document how they are dovetailing with the ADP as required by the cooperative agreement. This recommendation is closed.

2. Work with AED to establish formal goals in its work plan for implementing ARIES activities in ADP regions.

The ARIES second-year work plan submitted to and subsequently approved by the mission clearly describes the provinces where the program creates new financial service outlets, supports existing outlets, and disburses micro- and SME loans. All of the provinces referenced in the work plan are considered part of the ARIES target regions, as described in the cooperative agreement, and fall within the ADP priority areas. This recommendation is closed.

3. Direct AED to communicate success stories related to shifting opium-poppy workers into licit livelihoods as a result of ARIES loans in ADP regions.

The mission directed AED to submit a minimum of two articles per month to ensure effective communication of success stories. This recommendation is closed.

4. Direct AED to revise its ARIES performance monitoring plan to include appropriate performance indicators and targets and provide quarterly reports of those results to USAID.

The revised performance monitoring plan for FY 2008, which has been submitted for approval to the mission, includes specific targets in ADP regions for activities in the remaining 2 years of the cooperative agreement and will measure SME and micro-finance activities. These results will also be submitted on a quarterly basis. This recommendation is closed.

5. Direct AED to ensure that one of its partners, the World Council of Credit Unions (WOCCU), establishes and maintains appropriate systems and processes for recording, reporting, and internal monitoring of the operating activities of its IFCs as required by the ARIES work plan.

A strategic decision was made in November 2006 to begin installing Micro Banker, an integrated accounting software program, in each IFC 6 months after the startup of operations in order to increase the efficiency and accuracy of WOCCU's monitoring and reporting as well as to consolidate information more easily across different IFCs. This strategy is based on WOCCU's previous experience in Uzbekistan, which shows that training IFC staff on a manual accounting system is a necessary prerequisite to introducing an integrated accounting software program. This recommendation is closed.

6. Direct AED to ensure that WOCCU implements an integrated accounting system at each of its IFCs as required by its subagreement.

In accordance with mission suggestions, WOCCU planned to adopt the International Financial Reporting Standard for the IFCs and install Micro Banker, an integrated accounting software program, in each IFC 6 months after the startup of operations. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2007

Audit of Selected Follow-on Activities Under USAID/Afghanistan's Economic Program (No. 5-306-07-009-P)

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|------------------------------|--|
| Date: | August 31, 2007 |
| Implementing Partner: | BearingPoint, Inc. |
| Audit Period: | September 2005 to May 2007 |
| Funding: | As of May 2007, obligations and expenditures totaled \$33 million and \$19 million respectively for a 3-year, \$46 million contract. |

Background—Summary of Findings

The Economic Governance and Private Sector Strengthening Program's central goal is to assist the Government of Afghanistan (GoA) in establishing an environment that will promote rapid economic development and sustained high rates of economic growth led by the private sector. Under the contract, USAID signed six agreements with the GoA for BearingPoint, Inc., to provide technical assistance and support for capacity building to six ministries and organizations: (1) Da Afghanistan Bank; (2) the Ministry of Commerce and Industry; (3) the Ministry of Communications and Information Technology; (4) the Ministry of Finance Customs, Human Resources, and Secretariat; (5) the Ministry of Finance state-owned banks; and (6) the Office of the President/Office of the Senior Economic Adviser to the President.

USAID and the GoA agreed to work plans and activities with which BearingPoint would be engaged. Technical advisory services were intended to contribute to aspects of one or more of the following objects: (1) restructuring of the governmental ministries and organizations, (2) legal and regulatory reform, and (3) capacity building. As of May 2007, BearingPoint had 37 advisers providing assistance to the above ministries and organizations in support of the three objectives.

The audit found that some results had been achieved. This finding was based on a selected review of technical services provided by BearingPoint over a 20-month period (September 2005 to May 2007). For instance, advisers developed diagnostic reports that analyzed the deficiencies in two state-owned banks, made recommendations needed to revitalize the banks, contributed to the establishment of the Afghanistan Telecommunications Regulatory Authority, helped improve accounting functions in a bank to ensure international standards, assisted in drafting 10 commercial laws, and assisted in automating the Ministry of Finance customs functions to comply with international standards.

The audit also found instances in which results had not been achieved. BearingPoint did not assist the Ministry of Finance in promoting a modern human resources management system because the GoA did not have a counterpart with which it could work. As a result, progress had not been realized toward accomplishing agreed-upon activities established in the work plan for the Ministry of Finance, and the ministry had difficulty acquiring trained staff.

The audit also found that USAID and BearingPoint did not have agreed-upon performance indicators, contrary to USAID's written policy, which requires the establishment of set performance targets that can be achieved within a specific timeframe. There were three CTOs for the contract, and each had a different opinion as to what the indicators should be. While the contractor did provide monthly reports that described activities accomplished, there were no set indicators to report how the accomplishments compared to planned targets at any given time, thus compromising the effective management of the contract.

Recommendations—Management Decisions

Two recommendations were made by the audit:

1. That USAID/Afghanistan reevaluate the work plan for one particular project implementation letter and decide whether to allow BearingPoint to continue with the planned activities to provide a human resources adviser to the Ministry of Finance for the duration of the contract or to revise the plan.

The mission decided to assign a human resources adviser to the Ministry of Finance, and that person started in June 2007. This recommendation is closed.

2. That USAID/Afghanistan require BearingPoint to review, reassess, and update the work plans for the six project implementation letters issued under the program, and to include agreed-upon performance indicators and set targets that will be used to measure the program's intended results.

The mission and BearingPoint developed a combined work plan for all implementation letters, which included indicators and targets. This recommendation is closed.

Audit of USAID/Afghanistan's Urban Water and Sanitation Program (No. 5-306-07-006-P)

Date: June 7, 2007

Implementing Partner: Camp Dresser and Mckee, Inc.

Audit Period: September 2004 to December 2006

Funding: As of December 20, 2006, USAID had obligated \$37.3 million and disbursed \$36.2 million.

Background—Summary of Findings

OIG conducted this audit to determine whether selected activities under USAID's Urban Water and Sanitation Program were on schedule to achieve planned results (contract deliverables). Although planned contract deliverables were generally being achieved under the mission's Afghanistan Urban Water and Sanitation Program, OIG concluded that the long-term program was questionable and that contract administration problems existed between the mission and Camp Dresser and Mckee, Inc. (CDM), the implementing contractor.

Under the program, CDM was contracted to design and construct or improve water distribution systems, prepare water system feasibility studies, deliver capacity-building assistance, and provide water and sanitation technical advisory services. CDM was able to achieve several of the program objectives (e.g., completing water distribution systems in Gardez, Ghazni, and Chil Duktharan and extending the water distribution system in Karte Se). However, OIG noted concerns about the sustainability of the newly constructed and extended water distribution systems that could affect the program's future benefits or impact. For example, after recognizing the need for operator training for the newly built water distribution systems, the mission did not properly assess the training provided to proposed operators or the Afghan Government's plans to ensure the financial and operational sustainability of the newly built systems.

In addition, substantive contract administration problems were identified with the implementation of program activities. First, the mission's CTO requested that CDM make unauthorized changes in its work efforts in Kandahar. Second, the mission did not require CDM to comply with all contract work requirements or to meet reporting requirements needed to assist the mission in evaluating the program. Third, the mission did not require CDM to provide it with necessary financial information to help monitor contract costs. As a result, the mission's system for controlling, projecting, and monitoring the contract costs did not provide for the necessary information to foresee the contractor's requests for \$1.6 million in additional funds a month prior to the end of the contract.

Recommendations—Management Decisions

The audit report made five recommendations to help correct the identified problems:

1. That USAID/Afghanistan assess particular sites and provide any necessary training.

The mission agreed with the recommendation. USAID/Afghanistan's monitoring contractor, International Relief & Development, Inc., conducted an assessment of the operators' training needs and provided the necessary practical and in-class training to 10 operators and 16 operator trainees of the water supply projects in Ghazni, Gardez, and Chil Dukhtaran from November 10 to 30, 2007. This recommendation is closed.

2. That USAID/Afghanistan assist the relevant Government of Afghanistan ministries in determining the appropriate user fees to be charged to water system clients and how to increase usage of water system services by potential clients.

The mission planned to have an assessment conducted and then provide technical assistance to the ministries as needed by the end of April 2008. This recommendation is closed.

3. That USAID/Afghanistan require briefings for all incoming CTOs to reinforce the knowledge of applicable contractual delegated authorities and limitations for the duration of their stay in Afghanistan.

The mission institutionalized a practice and developed new procedures to brief all incoming cognizant technical officers. This recommendation is closed.

4. That USAID/Afghanistan require that CTOs fulfill their contract administration responsibilities at least quarterly, as applicable, by confirming and documenting that contractors are complying with specific contract reporting requirements.

The mission planned to develop a new mission order by May 2008 to provide for quarterly reporting and certifications by CTOs that applicable monitoring duties were performed. This recommendation is closed.

5. That USAID/Afghanistan strengthen its system for controlling, projecting, and monitoring contract costs.

The mission developed new procedures for controlling, projecting, and monitoring contractor costs. This recommendation is closed.

**Audit of Critical Power Sector Activities Under
USAID/Afghanistan’s Rehabilitation of Economic Facilities and
Services (REFS) Program
(No. 5-306-07-004-P)**

Date: May 21, 2007

Implementing Partner: Louis Berger Group, International (LBGI)

Audit Period: January to December 2006

Funding: The critical power sector activities audited under the REFS program were estimated to cost \$25 million. As of December 31, 2006, \$15.6 million had been spent.

Background—Summary of Findings

The Rehabilitation of Economic Facilities and Services (REFS) Program was one of the largest and most visible programs implemented by USAID/Afghanistan. Its purpose was to promote economic recovery and political stability by repairing infrastructure.

Providing electrical power to Afghans was considered important to the development of Afghanistan and key to its political stability. To this end, the country’s power and energy sector was targeted for rehabilitation under the REFS Program. LBGI concentrated on activities that provided electrical power to Kabul and the southern provinces of Helmand and Kandahar—the agricultural breadbasket of the country. The most critical activities involved the rehabilitation of the Kajakai Dam power plant through the refurbishing of two turbines and the manufacturing and installing of a third.

The audit found that one turbine had been refurbished as planned, but work on the other two turbines was significantly behind schedule because of security problems at the dam. Although the refurbished turbine delivered 16.5 megawatts of reliable hydroelectric power, delays in the other two activities postponed the delivery of 35 megawatts of reliable hydroelectric power to about 2 million people in southern Afghanistan.

After numerous attacks around the dam and the subsequent evacuation of LBGI personnel, USAID/Afghanistan, the U.S. Embassy, and LBGI took action in response. LBGI prepared a security plan to upgrade its own security at the dam, while USAID and the Embassy lobbied the International Security Assistance Force, which had replaced U.S. forces in the area, to provide more military protection. The International Security Assistance Force increased its presence around the Kajakai Dam. Nonetheless, LBGI was unable to return to the dam to resume its rehabilitation work as of January 29, 2007.

Recommendations—Management Decisions

Because the mission could not control the security situation around the dam, and because its actions as of the time of the audit seemed appropriate, OIG did not make any recommendations.

Audit of USAID/Afghanistan's Alternative Livelihoods Program—Eastern Region (No. 5-306-07-002-P)

Date: February 13, 2007

Implementing Partner: Development Alternatives, Inc.

Audit Period: February 2005 to September 2006

Funding: As of September 30, 2006, USAID had obligated \$54 million and disbursed \$24 million.

Background—Summary of Findings

In February 2005, USAID awarded a 4-year, \$108 million contract to Development Alternatives, Inc. (DAI), to implement the Alternative Livelihoods Program—Eastern Region (ALP/E) in the provinces of Kunar, Laghman, and Nangarhar. ALP/E's goal is to accelerate broad-based, sustainable regional economic development to provide new opportunities for Afghans to seek livelihoods in the licit economy in the eastern region of Afghanistan. The program has two objectives: (1) to help accelerate licit economic growth and business activity and (2) to help provide an immediate alternative source of income to poor households whose livelihoods depend, directly or indirectly, on the opium economy.

In FY 2006, ALP/E achieved significant results for 13 of 15 performance indicators used by USAID to measure whether the program was achieving planned results. Achievements that supported ALP/E's objective of accelerating licit economic growth and business activity included 27,534 hectares devoted to licit agricultural production and 98,154 farmers trained in agricultural practices. Achievements that supported ALP/E's objective of providing an immediate alternative source of income to those who depend on the opium economy included \$4,209,670 paid to 19,698 Afghans through cash-for-work projects. Two performance indicators could not be evaluated because sufficient information on actual accomplishments was not available or the related program activities were not fully implemented.

Despite its achievements, ALP/E could have been more successful had the program started when originally planned and had contracting snags been quickly resolved. For example, ALP/E missed the opportunity to induce more Afghans not to plant opium poppies in the winter of 2005 because the implementing contractor did not roll out the program as quickly as had been expected. Further, ALP/E did not deliver the anticipated \$1.6 million in microfinance loans intended to provide about 8,000 Afghans with alternatives to growing opium poppies because USAID had used a contracting mechanism that impaired its contractor's ability to fully implement credit and finance activities.

Recommendations—Management Decisions

The audit made four recommendations:

1. USAID should require DAI to replace the performance indicator on the number of Afghans receiving agricultural credit through ALP/E with a performance indicator that reflects the program's shift from funding microfinance loans to facilitating the issuance of such loans.

On January 30, 2007, the mission issued a technical directive to DAI directing that the indicator "Afghans receiving credit through ALP" be removed from the performance management plan and replaced by "number of loan agreements facilitated." This recommendation is closed.

2. USAID should update its performance target for kilometers of rural roads repaired in poppy regions to a realistic level that reflects the additional \$11 million of funding for this activity.

DAI updated its FY 2006 target for kilometers of rural roads repaired in poppy regions. This recommendation is closed.

3. USAID should develop a plan of action to ensure that performance targets are updated for future significant program changes.

On January 30, 2007, the mission issued a technical directive to DAI indicating that all required performance targets will be reviewed with the CTO on a monthly basis, with revisions made as appropriate. This recommendation is closed.

4. USAID should develop mission-specific procedures requiring that site visits of program activities be documented and maintained in CTO files.

On December 17, 2006, the mission issued Mission Notice No. 2006-106, Roles and Responsibilities of CTOs. This notice was issued to (1) require all CTOs to document and keep files of site visit reports; (2) remind COs/agreement officers, CTOs, and the supervisors of CTOs, about the interrelated nature of CTO performance and the monitoring thereof in the context of how designated CTOs perform their CTO duties and responsibilities as stated in their CTO designation letter; and (3) encourage joint site visits by CTOs and representatives from other offices who are involved in monitoring the performance and financial status of USAID/Afghanistan projects. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2006

Audit of USAID/Afghanistan's School and Health Clinic Reconstruction Activities (No. 5-306-06-008-P)

| | |
|-------------------------------|--|
| Date: | August 18, 2006 |
| Implementing Partners: | Cooperative Housing Foundation International International Organization for Migration Louis Berger Group, Inc. Shelter for Life International United Methodist Committee on Relief United Nations Office for Project Services U.S. Army Corps of Engineers |
| Audit Period: | September 2002 to April 2006 |
| Funding: | As of April 2006, the mission had recorded obligations of about \$92 million and disbursements of about \$81 million for program activities. |

Background—Summary of Findings

USAID's school and health clinic reconstruction activities were on schedule to achieve planned results. Specifically, as of April 19, 2006, USAID and its implementing partners were on schedule to complete 705 of the 776 school and health clinic buildings (91 percent) planned to be constructed or refurbished under the Schools and Clinics Construction and Refurbishment Program. Further, 511 of the 705 buildings had already been completed and turned over to the Government of Afghanistan.

Although it was on schedule to achieve 91 percent of its planned results, USAID had taken much longer than anticipated to reach this point. Factors such as deteriorating security and weather restrictions were often responsible for the delay in completion dates and changes to the number of buildings to be reconstructed under the program. Although some factors were beyond its control, the mission contributed to delays in getting 71 buildings completed.

Recommendations—Management Decisions

The audit made two recommendations:

1. USAID should make a final decision on what to do with the 13 buildings that the Louis Berger Group, Inc., did not complete and take any actions necessary to carry out its decision.

USAID/Afghanistan management concluded that security conditions still prevented reconstruction of the 13 schools and health clinics that the Louis Berger Group, Inc. (LBGI), could not complete. Consequently, the mission director signed an action memorandum formally canceling work on the 13 buildings. This recommendation is closed.

2. USAID should immediately modify the scope of work in its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the 2 buildings not completed by the United Methodist Committee on Relief.

USAID/Afghanistan management modified its agreement with the International Organization for Migration to add the 51 buildings not completed by Cooperative Housing Foundation International and the 2 buildings not completed by United Methodist Committee on Relief. This recommendation is closed.

Audit of USAID/Afghanistan's Rural Expansion of Afghanistan's Community-Based Healthcare (REACH) Program (No. 5-306-06-007-P)

Date: August 16, 2006
Implementing Partner: Management Sciences for Health
Audit Period: April 2003 to March 2006
Funding: Estimated costs at the time of audit totaled \$88 million.

Background—Summary of Findings

Afghanistan's health care system is among the worst in the developing world, and access to care is extremely limited after two decades of war and neglect. Development indicators published by the World Bank and the United Nations rank Afghanistan at the bottom of virtually every category, including nutrition, life expectancy, literacy, and infant, child, and maternal mortality. The health status of Afghans is among the worst in the world. The average life expectancy is approximately 43 years. About one out of every six Afghan children dies before the age of 5. The majority of Afghans in more than one-third of rural districts have no access to health care.

In May 2003, USAID awarded a 3-year, \$100 million contract to Management Sciences for Health to implement the REACH Program in order to improve access to basic health services for Afghans and to strengthen Afghanistan's health systems. The focus of this program is to provide access by moving health care closer to women of reproductive age and children under age 5 living in rural communities. The contract was subsequently increased to about \$139 million and extended to September 30, 2006. The Regional Inspector General/Manila conducted this audit to determine whether USAID/Afghanistan's school and health clinic reconstruction activities were on schedule to achieve planned results.

The audit concluded that selected activities under USAID's REACH program achieved their planned results. Specifically, 19 of 20 selected activities (95 percent) achieved their planned outputs, and one partly achieved its planned result as of March 31, 2006. For example, the REACH program awarded \$56.2 million to 28 grantees to provide basic health care to Afghans, and the grantees were providing such health care at 329 sites in 14 Afghan provinces. The program also distributed \$4.7 million of essential drugs to its health care providers and trained 568 midwives to provide reproductive health care services. Additionally, the program completed some activities aimed at improving the management and leadership capacity of Afghanistan's Ministry of Public Health.

Recommendations—Management Decisions

No recommendations were made by the audit.

**Audit of USAID/Afghanistan's
Reconstruction of the Kandahar–Herat Highway Under the
Rehabilitation of Economic Facilities and
Services (REFS) Program
(No. 5-306-06-005-P)**

Date: May 18, 2006
Implementing Partner: Louis Berger Group, Inc. (LBGI)
Audit Period: June 2004 to October 2005
Funding: As of October 1, 2005, reconstruction of the Kandahar–Herat Highway was estimated to cost \$162 million.

Background—Summary of Findings

The Rehabilitation of Economic Facilities and Services (REFS) Program is the largest and most visible program being implemented by USAID in Afghanistan. Its purpose is to promote economic recovery and political stability by repairing infrastructure. In September 2002, LBGI was awarded a contract to implement the program with the contract base period ending December 2005. USAID submitted a request to extend the contract to July 31, 2007, and to increase its cost to \$730 million. Reconstruction of the Kandahar–Herat portion of the east–west highway is a multinational effort. The Kandahar–Herat Highway, about 557 kilometers long, was divided into five sections for reconstruction purposes. The Governments of Japan and Saudi Arabia are funding the reconstruction of sections 1 and 2, respectively, which have a combined length of about 231 kilometers; and the United States, through USAID, is funding the reconstruction of sections 3, 4, and 5, which have a combined length of about 326 kilometers.

USAID's goal was to have all 326 kilometers of the highway paved with three layers of asphalt by December 31, 2005. As of the time of audit fieldwork (September 26 to October 19, 2005), reconstruction activities were on schedule to have 302 of 326 kilometers (92.6 percent) paved with three layers of asphalt. Although the remaining 24 kilometers were also to have been completed by December 31, 2005, they were not finished on time because of funding shortages, which the mission could have addressed sooner.

Recommendations—Management Decisions

OIG recommended that USAID develop and implement procedures with milestones to document, track, and promptly resolve significant issues uncovered in its own monitoring efforts that could affect the progress of its reconstruction activities. USAID implemented the recommendation, and it was closed at the time the audit report was issued.

Audit of USAID/Afghanistan's Rebuilding Agricultural Markets Program (No. 5-306-06-002-P)

| | |
|-------------------------------|--|
| Date: | March 28, 2006 |
| Implementing Partners: | Chemonics International, Inc. |
| Audit Period: | July 2003 to September 2005 |
| Funding: | As of December 2005, USAID had approved 51 job orders with a total value of \$114 million. |

Background—Summary of Findings

USAID's Rebuilding Agricultural Markets Program (RAMP) aimed to help Afghanistan rehabilitate its rural sector, focusing specifically on enhancing food security and increasing rural incomes. In July 2003, USAID awarded Chemonics a 3-year, cost-plus, fixed-fee contract for \$153.4 million to implement the activities under this program. As prime contractor, Chemonics was responsible for providing effective leadership, management, and coordination of program activities, which ranged from assessments, program design and planning, procurement of services in support of the core program activities, activity monitoring, and reporting.

Of the six activities reviewed, five achieved their selected planned results and one did not. The five that achieved the planned results were the rehabilitation of irrigation canals, agricultural microloans disbursed, livestock vaccinated or treated, farmers served by extension, and women trained in poultry management as of September 30, 2005. Efforts on irrigation canals resulted in 415 kilometers rehabilitated. Additionally, more than 20,000 women were trained in poultry management, and more than 16 million livestock vaccination/treatments were performed. The one activity that did not meet the planned output was the rehabilitation of farm-to-market roads.

Recommendations—Management Decisions

The audit made three recommendations:

1. USAID should obtain updated work plans from the contractor as required by the contract.

USAID/Afghanistan obtained an updated FY 2006 work plan and an updated life-of-project work plan from the contractor implementing RAMP. Additionally, the mission had incorporated these updated plans into its RAMP contract through a contract modification. This recommendation is closed.

2. USAID should determine whether the added work under the original contract should have been approved and modified within the original contract prior to implementation, in accordance with Federal Acquisition Regulation, part 43, on contract modifications. If necessary, USAID's contracting officer should modify the contract accordingly.

USAID/Afghanistan determined that, for three principal reasons, a modification to the RAMP contract was not required to approve activities subsequently added to the activities listed in the original contract. First, since RAMP implementation is accomplished through work orders, the activities that were added were also done through work orders. Second, the mission asserted that the added activities fell within or were consistent with the objectives of the RAMP contract. Third, the mission noted that updated work plans (obtained and incorporated into the RAMP contract as discussed in the preceding paragraph) included the added activities. This recommendation is closed.

3. USAID should implement an action plan to require staff to complete and issue contractor performance reports to comply with Automated Directives System 302.5.9.

USAID/Afghanistan issued Mission Notice 2006-05, which established procedures and timelines to ensure that contractor performance reports are continually updated and current. Additionally, the mission completed a performance evaluation of the RAMP contractor. This recommendation is closed.

Audit of USAID/Afghanistan's Cashiering Operations (No. 5-306-06-001-P)

Date: January 10, 2006
Implementing Partners: None
Audit Period: September 26–28, 2006
Funding: N/A

Background—Summary of Findings

USAID/Afghanistan managed its cashiering operations in accordance with established regulations, policies, and procedures.

The principal requirements to be followed by missions in managing their cashiering operations are established in title 31 of the Code of Federal Regulations, part 208; U.S. Department of Treasury's Manual of Procedures and Instructions for Cashiers; U.S. Department of State's Foreign Affairs Handbook; and USAID's published guidance such as the Automated Directives System, chapter 630. These requirements address such issues as making cash payments when a country's infrastructure does not support payment by a noncash mechanism, establishing imprest funds at appropriate levels, designating cashiers, establishing roles and responsibilities for cashiers and their supervisors, and installing adequate physical security and separation of duties.

USAID/Afghanistan provided guidance to cashiers and implemented other internal controls to carry out its cashiering operations according to established requirements. For example, the mission took the following steps:

- Followed appropriate procedures in establishing its imprest fund.
- Formally designated its cashiers.
- Established authorities for cashiers commensurate with size of the imprest fund.
- Provided training to its cashiers.
- Issued its own policies and procedures to provide supplemental guidance.
- Implemented adequate segregation of duties.
- Periodically performed and documented unannounced cash counts.
- Periodically reviewed and adjusted the level of its imprest fund.

In addition to the measures noted above, USAID/Afghanistan installed physical safeguards that were commensurate with the size of its imprest fund. For example, the cashiers' office was segregated from other mission offices. Additionally, the principal and the alternate cashiers each had a U.S. Government-approved safe for storing cash, paid vouchers, checks, and other cashiering documentation. The two safes had different combinations that were appropriately safeguarded. The mission also installed a security camera to monitor

the cashiers' office 24 hours a day, 7 days a week. Moreover, the mission routinely requested that the regional security officer provide armed escorts when mission cashiers went to the bank to replenish the imprest fund.

OIG performed an unannounced cash count of the imprest fund maintained by the principal and alternate cashiers. Specifically, OIG verified the accuracy of the cashiers' reconciliation statement to account for the imprest fund total of \$230,587. The cash count found that the \$230,587—consisting of cash and other cashiering documentation such as paid vouchers, cash advances to subcashiers, and accommodation exchange transactions—was accounted for and properly documented except for an immaterial shortage of \$22. Additionally, our testing found that the size of the imprest fund was not excessive but in line with the mission's needs.

Recommendations—Management Decisions

The audit made no recommendations.

Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan (No. 9-306-06-004-P)

| | |
|-------------------------------|--|
| Date: | December 21, 2005 |
| Implementing Partners: | U.S. Army Corps of Engineers, the Government of Afghanistan, and local contractors |
| Audit Period: | FY 2004 and 2005 earmarked funds—fieldwork occurred in October 2005 |
| Funding: | Earmarked funds totaled \$15 million. |

Background—Summary of Findings

Congress appropriated emergency supplemental funds to assist in meeting the urgent humanitarian and housing needs of displaced Afghans. The United Nations estimated that 1 million Afghans had unmet shelter and basic necessity needs for the winter of 2005–2006 and that there were more than 3 million Afghan refugees in Pakistan and more in Iran, many of whom would be forced to return to Afghanistan. It was estimated that approximately 80 percent of these returnees did not own land and would require shelter and other basic necessities.

As of September 30, 2005, only \$600,000 of the \$10 million appropriated for FY 2004 had been used to provide shelter materials and basic necessities for displaced persons in Kabul. Additionally, as of September 30, 2005, although Congress had been notified that the funds would be transferred to the Department of State’s Bureau of Population, Refugees, and Migration, none of the \$5 million appropriated for FY 2005 had been transferred or spent by the mission.

Recommendations—Management Decisions

The audit made three recommendations:

1. USAID should, for the \$9.4 million obligated under the limited-scope grant agreement (and to fund specifically identified assistance activities for displaced Afghans in and around Kabul), reprogram the balance of approximately \$4.97 million that was subobligated under the participating agency program agreement and subobligate the \$4.4 million not yet subobligated.

USAID deobligated all unexpended funds, totaling \$4.9 million, and reprogrammed the funds to an Office of Foreign Disaster Assistance contract with CARE to provide shelter to displaced Afghans. USAID also subobligated the remaining \$4.5 million into a participating agency program agreement with the Department of State’s Bureau of Population, Refugees, and Migration. This recommendation is closed.

2. In coordination with the Department of State's Bureau of Population, Refugees, and Migration, develop a plan to use the balance of approximately \$9.37 million to meet the basic necessities of displaced Afghans in and around Kabul.

USAID and the Department of State's Bureau of Population, Refugees, and Migration developed a plan to use the \$9.4 million for shelter related needs and other emergency activities for displaced Afghans in Kabul and other provinces. This recommendation is closed.

3. Inform Congress, as appropriate, of its plans to use the \$5 million earmarked in FY 2005 for assistance to displaced Afghans and use these funds for this assistance, as Congress intended.

Through a revised December 2005 report, dated May 15, 2006, USAID notified Congress of its plans to use the \$5 million. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2005

Audit of USAID/Afghanistan's Primary Education Program (No. 5-306-05-005-P)

| | |
|------------------------------|--|
| Date: | April 14, 2005 |
| Implementing Partner: | Creative Associates International, Inc. (CAII) |
| Audit Period: | January 2004 to December 2004 |
| Funding: | Estimated costs at the time of audit totaled \$88 million. |

Background—Summary of Findings

USAID designed the Afghanistan Primary Education Program (APEP) using a two-phase strategy. Phase 1 included reproducing and distributing 10.2 million textbooks, training 600 teachers, developing and broadcasting radio-based teacher training programs, and providing accelerated-learning classes to 15,706 students. Phase 2 included expanding APEP activities to 17 provinces, distributing a second round of 16.2 million textbooks, enhancing the quality of teaching by providing training to 6,800 teachers, expanding accelerated-learning classes to reach 170,000 students, and providing technical assistance to the Ministries of Education and Higher Education.

As of December 31, 2004, 3 of 10 APEP activities audited had not achieved their planned results, although significant progress had been made. Specifically, both textbook distribution and grade equivalents for accelerated-learning students were delayed, and the female student enrollment target was not achieved. These activities did not achieve their planned results for a number of reasons, including a delay in receiving funding for APEP.

Recommendations—Management Decisions

Four recommendations were made:

1. Obtain from CAII a distribution plan identifying the specific dates and locations for delivering the remaining textbooks in storage to ensure that the correct quantity, grade level, and language of textbooks are distributed to schools.

CAII sent USAID a distribution plan identifying the grade level and language of textbooks and the specific dates and locations for delivering the remaining textbooks in storage. This recommendation is closed.

2. Define the method to compute grade equivalents to be achieved. If change is needed to meet the planned results, the mission should obtain a detailed action plan from CAII showing how the grade-equivalent shortfalls will be achieved.

USAID changed the language for the planned results so that computing grade equivalents is clearly understood as grades "in process." This recommendation is closed.

3. Reassess the female enrollment target to ensure that performance can be managed toward an obtainable target.

USAID revised the female enrollment to "52.2 percent of girls participate in learning activities." This recommendation is closed.

4. Conduct a current performance evaluation of the contractor and prepare a report documenting the results.

The CTO completed and submitted a contractor performance report for the Afghanistan Primary Education Program on March 27, 2005. This recommendation is closed.

Audit of USAID/Afghanistan's School and Clinic Reconstruction Program (No. 5-306-05-003-P)

Date: March 14, 2005

| | | |
|---|--|----------------|
| Implementing Partners and Estimated Costs to Complete: | Cooperative Housing Foundation International (CHF) | \$11.7 million |
| | International Organization for Migration (IOM) | 18.6 million |
| | Louis Berger Group, Inc. (LBGI) | 23.8 million |
| | Shelter for Life International (SFL) | 7.6 million |
| | United Methodist Committee on Relief (UMCOR) | 4.6 million |
| | United Nations Office for Project Services (UNOPS) | 6.9 million |
| | <i>Total costs</i> | \$73.2 million |

Audit Period: September 2002 to October 2004

Funding: At the time of audit, USAID had obligated \$73 million for the six implementing partners.

Background—Summary of Findings

As of October 31, 2004, program activities were well behind schedule. For example, at the conclusion of audit fieldwork, only 91 of the 300 schools and clinics (30 percent) were completed. Additionally, no more than 328 of the 533 (62 percent) were anticipated to be completed by the end of the calendar year. Further, mission officials estimated that not all 533 schools and clinics would be completed until August 2005, at the earliest. Accomplishments as of October 31, 2004, were as follows:

| Implementing Partner | Buildings To Be Completed by 12/31/04 | Completed at Time of Audit | On Schedule To Be Completed by 12/31/04 | Total Completed or on Schedule | Percentage Completed or on Schedule |
|----------------------|---------------------------------------|----------------------------|---|--------------------------------|-------------------------------------|
| CHF | 59 | 3 | 0 | 3 | 5 |
| IOM | 215 | 54 | 64 | 118 | 55 |
| LBGI | 105 | 15 | 74 | 89 | 85 |
| SFL | 57 | 0 | 46 | 46 | 81 |
| UMCOR | 24 | 0 | 15 | 15 | 63 |
| UNOPS | 73 | 19 | 38 | 57 | 78 |
| Total | 533 | 91 | 237 | 328 | 62 |

Recommendations—Management Decisions

The audit made three recommendations:

1. USAID should finalize an alternative implementation plan with timeframes for the uncompleted portion of its school and clinic reconstruction program. The plan should

include measures to strengthen the capabilities of the Transitional Islamic State of Afghanistan's Ministries of Education and Health to contract for and manage construction projects.

The recommendation was closed on January 17, 2006, after USAID finalized an acceptable plan.

2. USAID should require that all of its school and clinic implementing partners and their subcontractors use the IRD method for calculating the percentage of completion for a school or clinic.

USAID notified implementing partners and contractors at a biweekly meeting of the requirement to use the IRD method of calculating the percentage of completion. This IRD method was used during the period July 2004 through February 2005. Subsequently, the IRD method was revised and received concurrence by the implementing partners and contractors. This recommendation is closed.

3. USAID should regularly merge the percent of completion data for each school and clinic from IRD's database into its own database to use as a tool for assessing the accuracy of the percent of completion data reported by implementing partners.

Although it was not possible to merge the two systems because of information technology security reasons, each partner and ministry provide data biweekly to USAID that is selectively entered into the USAID master list archives for schools and clinics. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2004

Audit of the Kabul to Kandahar Highway Reconstruction Activities Financed by USAID/Afghanistan's Rehabilitation of Economic Facilities and Services Program (No. 5-306-04-006-P)

Date: September 21, 2004

Implementing Partner: Louis Berger Group, Inc. (LBGI)

Audit Period: August 2003 to June 2004

Funding: At the time of audit, the reconstruction of the Kabul–Kandahar Highway was estimated to cost \$269 million.

Background—Summary of Findings

The purpose of the Rehabilitation of Economic Facilities and Services (REFS) Program was to promote economic recovery and political stability by repairing infrastructure. In September 2002, LBGI was awarded a contract to implement the program, including road reconstruction and other infrastructure activities, with the contract base period ending December 2005. At the time of audit, contract modifications had increased estimated costs to \$665 million. Reconstruction of the Kabul–Kandahar segment of Afghanistan's major east–west highway was the largest activity being implemented under the REFS Program. The east–west highway runs approximately 1,200 kilometers from Kabul to Herat. In April 2003, the U.S. Government assumed responsibility for 389 kilometers of the Kabul–Kandahar Highway, starting 43 kilometers outside of Kabul and ending 50 kilometers before Kandahar.

OIG found that the mission (1) generally had checked the timeliness of reconstruction activities but had not fully monitored the quality of the road reconstruction, in part because of security restrictions, and (2) had not verified whether the contractor's performance conformed to its contract. According to LBGI, the following outputs had been achieved as of June 22, 2004.

| Reconstruction Outputs as of June 22, 2004 | Planned | Completed |
|--|---------|-----------|
| Paving a first layer of asphalt (Phase 1) | 389 km | 359 km |
| Paving a second layer of asphalt (Phase 2) | 389 km | 310 km |
| Paving a third layer of asphalt (Phase 2) | 389 km | 117 km |
| Completing six bridges (Phase 2) | 6 | 0 |

Recommendations—Management Decisions

The audit made two recommendations:

1. Develop a comprehensive monitoring plan to ensure quality, timeliness, and compliance with contract terms, including requiring the contractor to submit a comprehensive quality control and assurance program for USAID approval.

The mission developed the recommended plan, which required site inspection teams to be present onsite on each section of road. The teams were also tasked with monitoring the quality control program of the contractor and preparing daily and weekly reports. In addition, the mission's project manager and quality assurance manager were to make semimonthly visits to the site. This recommendation is closed.

2. Perform an analysis of contractor claims to ensure that USAID does not pay for the defective roadwork.

The mission identified deficiencies in the work of the contractor and had the contractor replace the defective work at the contractor's expense. This recommendation is closed.

Audit of the Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program at USAID/Afghanistan (No. 5-306-04-005-P)

Date: August 17, 2004
Implementing Partner: BearingPoint, Inc.
Audit Period: January 2003 to April 2004
Funding: As of April 30, 2004, the 3-year, \$96 million contract had expenditures that totaled \$28 million.

Background—Summary of Findings

In December 2002, USAID/Afghanistan awarded a contract to BearingPoint to carry out the SEPIRS Program. BearingPoint used expatriate and local consultants to provide technical assistance to various ministries of the Transitional Afghan Authority. For example, under “fiscal reform,” consultants worked with the Ministry of Finance on activities such as establishing an efficient tax administration system and a budget planning and reporting system. “Banking reform” included not only strengthening the Central Bank but also working with it on activities such as licensing and regulating banks and maintaining a stable currency. “Legal/regulatory reform” included activities such as the drafting and passing of laws governing banking, taxation, property, and natural resources. Under “trade reform,” consultants provided technical assistance to the Ministry of Commerce on activities such as entering the World Trade Organization, developing exports, and organizing women entrepreneurs.

OIG could not determine whether the SEPIRS Program was on schedule to achieve planned results because the program had no current work plan that contained expected accomplishments and milestones against which to measure progress. USAID had not required the contractor implementing the program to prepare quarterly work plans, even though such work plans were required under the contract. However, OIG found that progress was being made and that USAID had monitored the program in other ways.

Recommendations—Management Decisions

The audit made one recommendation: USAID/Afghanistan should require BearingPoint to comply with the SEPIRS contract by submitting quarterly work plans to USAID that include expected accomplishments and milestones.

In July 2004, the contractor put in place a monitoring system that included updated work plans. Further, USAID/Afghanistan provided a schedule of due dates for the quarterly work plans required under the contract. USAID/Afghanistan submitted the most recent contractor work plan it had approved in July 2004, as well as other detailed supporting documentation that illustrated additional corrective actions to enforce contract requirements.

This recommendation was closed prior to the issuance of the audit report.

**Second Review of the Road Project Financed by
USAID/Afghanistan's Rehabilitation of
Economic Facilities and Services (REFS) Program
(Regional Inspector General/Manila Memorandum 04-003)**

Date: March 31, 2004
Implementing Partner: Louis Berger Group, Inc. (LBGI)
Audit Period: Not applicable
Funding: \$500 million

Background—Summary of Findings

The Rehabilitation of Economic Facilities and Services (REFS) Program was intended to promote economic recovery and political stability by repairing infrastructure. In September 2002, LBGI was awarded a \$143 million contract to implement the REFS Program, including road reconstruction and other infrastructure activities, with the contract base period ending December 31, 2005. At the time of the audit, contract modifications had increased estimated costs to \$500 million. In April 2003, the U.S. Government assumed responsibility for 389 kilometers of the road project, starting 43 kilometers outside of Kabul and ending 50 kilometers before Kandahar. After assuming responsibility for the Kabul–Kandahar segment, the U.S. Government tasked USAID with reconstructing the 389-kilometer highway. In response, LBGI developed and USAID approved a two-phased strategy.

Phase 1 of the Kabul–Kandahar Highway was to be completed by December 31, 2003. USAID reported that, for all 389 kilometers of the Kabul–Kandahar Highway, either the surface had been paved with a single layer of new asphalt up to 10 centimeters thick or existing asphalt had been repaired.

The phase 1 goal under the strategy included completing a 9-meter-wide road (including two 1-meter wide shoulders) that had at least one layer of asphalt, 10 centimeters thick, on the driving surface for all 389 kilometers by December 31, 2003. Phase 2 envisioned completing the road by widening it to 12 meters (including two 2.5-meter wide shoulders), and adding three additional layers of asphalt for a total of four layers, 31 centimeters thick, by October 2004. However, LBGI's implementation plan dated January 30, 2004, revised the road design of the completed road to only three layers of asphalt, totaling 25 centimeters. LBGI made this change because load-bearing tests indicated that 6 centimeters of asphalt could be eliminated without compromising road durability. As a result of this change and the elimination of certain contingency costs, the road, although estimated in May 2003 to cost as much as \$273 million, was later estimated to cost \$229 million.

OIG conducted fieldwork to report on the progress of the road project during January 2004. The results are described below.

USAID/Afghanistan reported that LBGI met the phase 1 goal of paving 328 kilometers of the 389-kilometer road project with at least one layer of new asphalt and repairing the remaining 61 kilometers by December 31, 2003, as planned. However, reconstruction of six bridges along the Kabul–Kandahar Highway, also included in phase 1, was not completed by the end of December 2003 as planned. LBGI estimated at the time that the bridges were over 50 percent complete and cited security incidents and logistical problems for the delays in their completion. Although most phase 2 reconstruction was not scheduled to begin until the spring of 2004, some work was already under way. For example, timeframes for completing phase 2 had been developed, and subcontractors had begun paving a second layer of asphalt. In addition, 93 of the 389 kilometers had reportedly already been paved with a second layer of asphalt. USAID and LBGI officials stated they were on schedule to complete the Kabul–Kandahar Highway by October 2004.

At the time of this review, although winter weather had prevented most phase 2 operations from beginning, LBGI reported that 93 kilometers of the Kabul–Kandahar Highway had already been paved with a second layer of asphalt as of February 23, 2004. Additionally, subcontractors were able to do some work on widening highway shoulders, building culverts, and reconstructing bridges.

Recommendations—Management Decisions

Mission officials stated that the contents of this memorandum were generally consistent with their knowledge of the project and mission files. However, they commented that the road design had not been changed to reduce the number of layers of asphalt from four to three as the OIG reports. The officials claimed that the road design still requires four layers of asphalt: two base layers, one binder course, and one wearing course. However, as noted on page 3 of this memorandum, LBGI's implementation plan dated January 30, 2004, revised the road design to delete the binder course. This reduction in the number of layers was confirmed by LBGI's project manager, who stated that the current road design calls for two base layers and one wearing course layer. Consequently, OIG did not change the number of layers in this report from three to four, as suggested by the mission, since both the January 2004 implementation plan and project manager's comments seem to support three layers. There was, however, no disagreement as to the total thickness of asphalt required. Nevertheless, OIG recommended that the mission discuss with LBGI this apparent inconsistency in the required number of layers.

**Review of the Road Project Financed by
USAID/Afghanistan's
Rehabilitation of Economic Facilities and
Services (REFS) Program
(Regional Inspector General/Manila Memorandum 04-002)**

Date: November 13, 2003
Implementing Partner: Louis Berger Group, Inc. (LBGI)
Audit Period: August and October 2003
Funding: \$284 million

Background—Summary of Findings

The Rehabilitation of Economic Facilities and Services (REFS) Program was intended to promote economic recovery and political stability by repairing infrastructure, including a major road reconstruction project.

After assuming responsibility for the Kabul–Kandahar segment of the road project, the U.S. Government tasked USAID with reconstructing the 389-kilometer highway. In response, LBGI developed and USAID approved a two-phased strategy to accelerate the reconstruction. The strategy set a first-phase goal of completing a 9-meter-wide road (including two 1-meter-wide shoulders) that had at least one layer of asphalt 15 centimeters thick on the driving surface for all 389 kilometers by December 31, 2003. Because of the accelerated reconstruction schedule, the estimated cost to complete all phases of the Kabul–Kandahar Highway reconstruction had risen to nearly \$284 million (including, according to the mission, \$40 million for contingencies).

To report on the progress of the road project, OIG traveled to Afghanistan in August and October 2003. Officials reviewed documentation from the mission and LBGI, interviewed officials, and visited reconstruction sites. Despite the complexity of the road project, LBGI and USAID/Afghanistan had accomplished the following:

- Hired four subcontractors from India and Turkey.
- Mobilized heavy equipment, rock-crushing plants, and asphalt-mixing plants.
- Deployed security teams to patrol construction zones and camps.
- Located, imported, and processed supplies.
- Collaborated with the United Nations to expedite the clearing of mines.

Nevertheless, in September 2003, USAID officials said that asphalt-paving activities were about 4 weeks behind the schedule set in April 2003, due in part to demining security incidents. As of November 1, 2003, LBGI reports showed that 222 kilometers of road had been paved to a 10-centimeter depth. Barring unforeseen problems, USAID officials stated that they planned to have the 389 kilometers paved to this depth by the end of December

2003, excluding 68 kilometers of existing pavement that only needed repair, as USAID stated in its management comment.

Problems had delayed the project's progress:

- Security incidents increased.
- The area had to be demined.
- Almost none of the equipment and materials needed to construct a road were available locally.
- Some equipment and materials being brought into the country had been detained by neighboring country customs authorities.
- The onset of winter weather might affect LBGI's ability to achieve the accelerated goals.

Recommendations—Management Decisions

OIG recommended that LBGI maintain a detailed, updated implementation plan for its REFS activities. According to its contract, LBGI was to prepare an implementation plan within 30 days of arrival in Afghanistan and updated plans by the end of every January to ensure that all REFS activities—including the road project—would be completed on time and within budget. The contract required that the plan be flexible to respond to changes in the number, type, and location of REFS activities. LBGI prepared an initial plan in December 2002. However, LBGI did not update its December 2002 implementation plan to reflect changes made to the road reconstruction schedule through December 2003 or beyond.

LBGI issued an updated implementation plan for its REFS activities on January 30, 2004. This recommendation is closed.

Afghanistan Performance Audits

Fiscal Year 2003

Risk Assessment of Major Activities Managed by USAID/Afghanistan (No. 5-306-03-001-S)

| | |
|------------------------------|----------------|
| Date: | March 11, 2003 |
| Implementing Partner: | N/A |
| Audit Period: | N/A |
| Funding: | N/A |

Background—Summary of Findings

The Afghanistan Freedom Support Act of 2002 authorized \$1.7 billion over 4 fiscal years (beginning with FY 2003) for economic, humanitarian, and development assistance to Afghanistan.

To prioritize OIG workload and determine what type of audit coverage would be appropriate for each individual activity being funded and managed by the mission, OIG performed risk assessments of USAID/Afghanistan's operations as a whole and of activities planned.

OIG assessed the overall risk related to USAID/Afghanistan's ability to manage assistance activities. The overriding constraint to managing assistance activities in Afghanistan was the tenuous security situation in the country. Because of security concerns, travel within and particularly outside of Kabul was heavily restricted. Most U.S. direct hires were required to live and work in the U.S. Embassy compound, and approval was required for all trips outside its walls. For trips outside of Kabul, approval was contingent upon taking along at least two vehicles and two armed U.S. military personnel. USAID/Afghanistan's own assessment identified three material weaknesses in its system of management controls, all of which are related to the country's difficult security situation:

1. Unsuitable working and living conditions.
2. Inability to readily travel to project sites.
3. Retention of personnel and delays in the assignment of personnel.

In assessing overall risk, OIG reviewed the mission's own candid assessment of risk, which it had undertaken to meet the annual certification requirement of the Federal Managers' Financial Integrity Act of 1982. OIG—and the mission's own assessment—concluded that, overall, the risks were high for program goals not being attained,

noncompliance with laws and regulations, inaccurate reporting, and illegal or inappropriate use of assets or resources.

Generally, the risks associated with the three material weaknesses were amplified by (1) the magnitude of the funding being provided to Afghanistan, (2) the pressure to implement activities in extremely short timeframes, (3) the lack of stable host government institutions, and (4) the pervasiveness of corruption and lawlessness in the country—not to mention the presence in-country of some 5 to 7 million mines.

The mission reported that because of the three material weaknesses it had identified, its ability to achieve objectives was significantly impaired—as well as its ability to obtain, report, and use reliable and timely information for decision making. The mission also reported that, as a result of these weaknesses, statutory or regulatory requirements could be violated.

Recommendations—Management Decisions

While USAID/Afghanistan proposed a number of corrective actions for the material weaknesses it had identified, most of these proposals were not entirely within its control. Many were under the control of the U.S. Embassy in Kabul—especially those relating to working and living arrangements. However, USAID/Afghanistan was exploring the possibility of obtaining its own building and its own employee residences.

OIG agreed that each of these weaknesses presented a challenge for the mission and for the achievement of program objectives. Although the mission had proposed corrective actions for the material weaknesses it identified, most of the proposals would require the support of the U.S. Embassy in Kabul.

Afghanistan Investigative Case Work and Fraud Prevention Briefings

| Case Number | Criminal Law Enforcement Records System (CLERS) | Source | Allegation | Status | Program Integrity (PI) or Employee Integrity (EI) | Savings and Recoveries | Department of Justice Civil/Criminal Actions | Results |
|-------------|---|-----------------------|--|--------|---|------------------------|--|---|
| A03101 | | USAID employee | Improper use/diversion of Government property/personnel | Closed | EI | | | Employee reprimand |
| A04031 | | Contractor | False claim | Closed | PI | | | Allegations disproved |
| A04083 | | USAID employee | Bribery/gratuity/kickback | Closed | PI | | | Contract employee termination |
| A04144 | | Contractor | Conflict of interest | Closed | EI | | | Referred to mission |
| A04147 | | USAID employee | Reciprocal fraud/procurement investments | Closed | EI | \$11,275,000 | 1 civil referral, 1 criminal referral | Savings, DOJ declinations (2) |
| A05041 | | Other | Theft of Government property | Closed | PI | \$4,000 | | Administrative recovery |
| A05042 | | Other | False claim | Closed | PI | \$46,670 | | Administrative recovery |
| A05052 | | USAID employee | Theft of Government property | Closed | PI | | | Allegations disproved |
| A05083 | | Other | False claim | Closed | PI | | | Allegations disproved |
| A06002 | | USAID employee | Intimidation/extortion | Closed | PI | | | Allegations disproved |
| A06003 | | Unknown | False claim | Closed | PI | | | Allegations disproved |
| L05046 | LA-MA-08-0005-I | Contractor | Conspiracy; false claim; obstruction of justice; wire/mail fraud | Open | PI | \$24,055,074 | 1 civic referral, 5 criminal referrals | Indictments (8); convictions (3); arrests (7) Afghan Court; procurement suspension (5); \$24,055,074 savings; contract terminated |
| L07023 | | USAID employee | Pay and allowance matters | Closed | EI | | | Employee resignation |
| L07089 | LA-MA-08-0004-I | Anonymous | False claim | Closed | PI | \$22,155,361 | 1 civic referral, 1 criminal referral | Bills of collection \$612,870; \$11,500,000; \$2 million; \$22,392; \$40,053; \$7,480,046; \$500,000 |
| L07090 | | Unknown | Bribery/gratuity/kickback | Closed | EI | | | Allegations disproved |
| L07093 | | Walk-in | Collusive bidding | Closed | PI | | | Employee termination |
| L08002 | | Other | False claim | Closed | PI | | | Allegations disproved |
| O03007 | | Proactive | Proactive | Closed | PI | | | Proactive |
| | LA-KA-09-0197-I | Contractor | Collusive bidding | Open | PI | | 1 criminal referral | |
| | LA-H0-08-0175-R | Congressional inquiry | Program fraud | Closed | PI | | | NA |
| | LA-H0-09-0034-G | Anonymous | Program fraud | Closed | PI | | | NA |
| | LA-H0-09-0177-I | Case spinoff | Bribery/gratuity/kickback | Open | PI | | 1 criminal referral | Conviction |

| Case Number | Criminal Law Enforcement Records System (CLERS) | Source | Allegation | Status | Program Integrity (PI) or Employee Integrity (EI) | Savings and Recoveries | Department of Justice Civil/Criminal Actions | Results |
|-------------|---|-----------------------|---------------------------|-------------|---|------------------------|--|---|
| | LA-KA-09-0201-I | Private citizen | Program fraud | Open | PI | | 1 civil referral | |
| | LA-KA-10-0005-I | Private citizen | Program fraud | Open | PI | | | |
| | LA-KA-10-0006-I | Private citizen | Program fraud | Open | PI | | | |
| | LA-KA-10-0011-I | USAID employee | Bribery/gratuity/kickback | Open | PI | | | |
| | LA-KA-10-0035-I | Contractor | Bribery/gratuity/kickback | Open | PI | | | |
| | LA-KA-10-0039-G | Former Contractor | Program fraud | Open | PI | | | |
| | LA-KA-10-0057-P | Private citizen | Bribery/gratuity/kickback | Preliminary | PI | | | |
| | LA-KA-10-0062-I | Former Contractor | Bribery/gratuity/kickback | Open | PI | | | |
| | LA-KA-10-0071-I | IG/Audit | Theft | Open | PI | | 1 criminal referral | |
| | LA-KA-10-0074-P | Anonymous | Program fraud | Preliminary | PI | | | |
| | LA-KA-10-0079-P | Contractor Employee | Program fraud | Preliminary | PI | | | |
| | LA-MA-08-0097-G | USAID employee | Procurement integrity | Closed | EI | | | NA |
| | LA-MA-08-0106-G | USAID employee | Extortion | Closed | PI | | | NA |
| | LA-MA-08-0107-G | Other Agency referral | False statement | Closed | PI | | | NA |
| | LA-MA-08-0159-I | USAID employee | Collusive bidding | Closed | PI | | | NA |
| | LA-MA-08-0169-R | Private citizen | Program fraud | Closed | PI | | | NA |
| | LA-MA-08-0178-I | USAID employee | Program fraud | Closed | PI | | | NA |
| | LA-MA-08-0179-I | Anonymous | Bribery/gratuity/kickback | Open | PI | \$509,554 | | Resignation (1); savings \$51,551; \$14,533; \$433,270; \$10,200, declination |
| | LA-MA-09-0021-R | Confidential source | Program fraud | Closed | PI | | | NA |
| | LA-MA-09-0024-G | Private citizen | Program fraud | Closed | PI | | | NA |
| | LA-MA-09-0031-I | Case spinoff | Theft | Closed | PI | | | NA |
| | LA-MA-09-0065-I | Anonymous | Bribery/gratuity/kickback | Open | PI | \$29,300,000 | | Savings, contract terminated |

| Case Number | Criminal Law Enforcement Records System (CLERS) | Source | Allegation | Status | Program Integrity (PI) or Employee Integrity (EI) | Savings and Recoveries | Department of Justice Civil/Criminal Actions | Results |
|-------------|---|-------------------------|---------------------------|--------|---|------------------------|--|---|
| | LA-MA-09-0073-I | Contractor | Bribery/gratuity/kickback | Closed | PI | | | Employee termination |
| | LA-MA-09-0078-I | Self-initiated; spinoff | False statement | Closed | PI | \$1,217 | | Restitution; personnel suspension; restitution \$546; bill of collection \$671; systemic change (4/26/09) |
| | LA-MA-09-0079-G | Anonymous | Bribery/gratuity/kickback | Closed | PI | | | |
| | LA-MA-09-0104-I | Self-initiated; spinoff | Conspiracy | Closed | PI | | | |
| | LA-MA-09-0121-I | Contractor | Bribery/gratuity/kickback | Open | PI | \$62,030,589 | 1 criminal referral | Arrests (3), employee termination, termination of contract, indictment, 1-year sentencing, conviction, 9M jail time |
| | LA-MA-09-0124-I | Private citizen | Conflict of interest | Open | PI | | | |
| | LA-MA-09-0136-I | Anonymous | Program fraud | Open | PI | | | |
| | LA-MA-09-0161-G | Other Agency referral | Program fraud | Closed | PI | | | |
| | LA-MA-09-0164-I | Contractor | Program fraud | Open | PI | | | |
| | LA-MA-09-0166-I | USAID employee | False claim | Open | PI | | | |
| | LA-MA-09-0168-I | Other Agency referral | Theft | Open | PI | | 1 criminal referral | |
| | LA-MA-09-140-G | Private citizen | Conspiracy | Open | PI | | | |
| | LA-MA-10-0013-I | USAID employee | Conflict of interest | Open | PI | | | |
| | | | | | | \$149,377,465 | 21 cases open as of 3/30/10 | |

| | FY 2010 Second Quarter Results | Cumulative Results* |
|--|--------------------------------|---------------------|
| Cases Opened | 2 | 54 |
| Cases Closed | 0 | 33 |
| Department of Justice referrals | 2 | 16 |
| Arrests | 0 | 10 |
| Indictments | 0 | 8 |
| Convictions | 2 | 5 |
| Administrative Actions** | 0 | 9 |
| Fraud Awareness Briefings | 4 | 18 |
| Attendees at Fraud Awareness Briefings | 27 | 483 |

* May 2003 to March 2010

** Terminations, suspensions, reprimands, bills for collection, etc.

***Preliminary Cases are NOT counted as Open

Afghanistan

Investigative Summaries

Fiscal Years 2004–10

Arrests Made and \$62 Million Solicitation Canceled Following Investigation of Conspiracy to Solicit Kickbacks

Allegation

OIG initiated an investigation into an alleged conspiracy to sell privileged information in connection with the award of a private security services subcontract to protect U.S. Government personnel and contractors in Afghanistan. The subcontract was valued at more than \$60 million.

Status

The investigation identified three subjects who were involved in a conspiracy to solicit kickbacks from private security vendors in return for favorable consideration for the awarding of subcontracts in connection with USAID's Afghanistan Infrastructure Rehabilitation Program. USAID, upon learning of the full nature of the conspiracy, canceled the subcontract.

One of the co-conspirators, an Australian, voluntarily surrendered and was arrested upon entry into the United States. The party subsequently pleaded guilty on November 16, 2009, to one count of conspiracy to solicit a kickback and received a 9-month prison sentence. The subject will be deported after the conclusion of the sentence.

Another of the co-conspirators, an American, pleaded guilty on January 26, 2010, to one count of aiding and abetting the solicitation of a kickback. The subject is free on bail awaiting sentencing, scheduled for later this year.

A third co-conspirator, an American, was sentenced on December 19, 2009, to 12 months and 1 day. The subject has reported to the Bureau of Prisons to commence the sentence.

Savings Mount to \$22 Million in OIG Investigation

Allegation

OIG initiated an investigation in August 2007 on the basis of an anonymous complaint that a grantee linked to the United Nations Development Fund may have improperly drawn funds from a USAID agreement. The organization, the U.N. Office for Project Services (UNOPS), reportedly withdrew millions of dollars from its letter of credit after

being notified that it could bill only nominal closeout costs for projects it was implementing. The projects were alleged to have been not completed as claimed, and others had defects and warranty issues that the organization would not address.

Status

OIG uncovered many performance and financial control problems and potential violations of law. Relying on a USAID letter of credit, UNOPS had transferred funds to and from a USAID project systematically without USAID's knowledge or consent. When asked to explain the transfers, the organization refused to justify the use of the questioned funds. The investigation further cited poor design and poor performance on construction projects and false reporting on projects. Some projects were not completed, and others had defects and warranty issues, including some life-threatening oversights. Projects had numerous design errors, repairs left undone, and equipment and materials never installed that had been billed as completed. Total savings and recoveries for this investigation total more than \$22 million thus far.

Criminal Investigation Yields \$24 Million in Savings or Recoveries

Allegation

OIG received complaints of widespread fraud, waste, and abuse on the part of a primary USAID contractor in Iraq and Afghanistan, United States Protection and Investigations (USPI), LLC. Among the allegations were billing to multiple contracts of the same labor costs, inflation of rental car receipts, and kickbacks to local officials. The security contracts were intended to support USAID's Rehabilitation of Economic Facilities and Services Program in Afghanistan.

Status

Following an investigation, a seven-count indictment was returned on September 30, 2008, involving four individuals charged with conspiracy, major fraud, and wire fraud arising from a scheme to defraud the United States in connection with the war and reconstruction efforts in Afghanistan. The subcontractors defrauded USAID by obtaining reimbursement for inflated expenses purportedly incurred for rental vehicles, fuel, and security personnel. These false invoices inflated the amounts the contractor actually had paid for rental vehicles and fuel.

The co-owners of the security company pleaded guilty September 9, 2009, to conspiracy, major fraud, and wire fraud. Their plea agreements require them to forfeit \$3 million in proceeds that can be traced to the fraud. Further, USAID realized additional savings after the contract with USPI was canceled in March 2009.

The company and the other individuals charged have been suspended indefinitely from doing business with the U.S. Government. One is serving a 2-year sentence in Kabul. The second individual was placed on trial on March 20, 2010. A mistrial was declared, and the Department of Justice is considering whether to retry the individual.

This case was investigated jointly by USAID/OIG, the Federal Bureau of Investigation, and the National Procurement Fraud Task Force.

Employee Resigns When Investigation Uncovers Conflicts of Interest

Allegation

OIG received an allegation that USAID employees were committing fraud in connection with the purchase of supplies and services. One employee reportedly demanded kickbacks from a vendor and conspired with a third-country national to inflate costs for bulletproof vests and helmets and then share the profits. The allegation also claimed that two employees working for the first suspect were paying him shares of money they had received fraudulently, and one was given unfair advantage in the hiring process by being provided interview questions in advance.

Status

A USAID employee responsible for purchasing equipment and supplies for the mission in Afghanistan resigned after an investigation uncovered conflicts of interest and fraud. The employee was found to be conducting business with people to whom he was personally connected, and he produced false records from a nonexistent business as proof of various business transactions. Some transactions were cancelled as a result of the investigation, saving USAID over \$500,000.

Inflated Claims for Medical Costs Result in Resignation

Allegation

OIG received an allegation that a USAID employee was committing fraud by submitting vouchers and being paid for the reimbursement of medicine and medical treatment that cost less than the employee claimed. The allegation claimed that the employee had self-audited one such voucher, in violation of USAID's internal controls.

Status

The investigation substantiated the claims of the allegation, and the employee voluntarily resigned after being suspended by USAID.

Employee Fired for Promoting Corruption

Allegation

OIG received allegations that a company responsible for building industrial parks in Afghanistan was undertaking unfair and illegal procedures to award generator contracts, in collusion with a USAID Foreign Service National (FSN) employee who was reportedly soliciting kickbacks in exchange for future contracts.

Status

Investigators were unable to produce sufficient evidence to substantiate the allegations; however, they did uncover other abuses that the employee had been engaging in, such as instructing friends to lie on their applications to USAID and advising them that he would obtain the questions to be asked in their interviews ahead of time. The FSN was subsequently fired.

Subgrantee Bills Inappropriate Costs to USAID Grantee

Allegation

Allegations were received that a subgrantee of a USAID prime grantee billed unallowable costs in connection with a \$128 million cooperative agreement to provide basic health care services, including family planning and immunizations, throughout Afghanistan.

Status

The OIG investigation identified \$80,000 in questioned costs vouchered to the grantee by its subgrantee, more than \$46,000 of which was determined unallowable and inappropriately billed to USAID. As a result of the investigation, USAID issued a demand letter to the grantee to repay the funds. The grantee then issued a credit to USAID for the amount in question.

Investigation Results in Savings of \$11 Million

Allegation

OIG received an allegation that a grantee, in order to win an award, had made misrepresentations in its proposal pertaining to the status of an agreement with a subgrantee.

Status

The investigation verified that the representations were false, but because there was insufficient evidence to prove intent, OIG could not secure prosecution. However, USAID terminated the cooperative agreement for material noncompliance with the terms and conditions of the award, leading to \$11.2 million in savings for USAID.