



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund

AUDIT REPORT 8-306-17-004-P
AUGUST 16, 2017

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MEMORANDUM

DATE: August 16, 2017

TO: Office of Afghanistan and Pakistan Affairs, Acting Assistant to the Administrator,
Joakim Parker

USAID/Afghanistan, Mission Director, Herbert Smith

FROM: Assistant Inspector General for Audit, Thomas E. Yatsco /s/

SUBJECT: USAID PLANNING AND MONITORING GAPS WEAKEN
ACCOUNTABILITY FOR RESULTS THROUGH THE AFGHANISTAN
RECONSTRUCTION TRUST FUND (8-306-17-004-P)

This memorandum transmits the final report on our audit of USAID's use of the Afghanistan Reconstruction Trust Fund (ARTF). Our audit objective was to determine if USAID/Afghanistan adopted effective and consistent practices to provide reasonable assurance that activities implemented through the ARTF contribute to achieving USAID's objectives in Afghanistan. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding the annex and attachments, in appendix D.

The report contains 11 recommendations to improve USAID's use of ARTF. After reviewing information you provided in response to the draft report, we acknowledge your management decisions on all 11 recommendations and final action on recommendations 2, 7, 8, 10, and 11. We disagree with the management decisions on recommendations 8 and 10. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

We thank you and your staff for the assistance extended to us during this audit.

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INTRODUCTION

More than 15 years after the September 11, 2001, terrorist attacks on the United States, the stability of Afghanistan remains a vital U.S. national interest. In July 2016, President Obama reaffirmed his commitment to prevent Afghanistan from being used again as a terrorist safe haven, and in February 2017 President Trump highlighted the continued importance of the United States-Afghanistan partnership. This partnership includes ongoing assistance to help foster Afghanistan's social and economic development and strengthen Afghan institutions and governance. As part of this commitment, the U.S. Government pledged to provide 50 percent of its development assistance "on budget," defined as either directly to the Afghan Government or through contributions to multidonor trust funds that international organizations disburse to the Afghan Government.

The Afghanistan Reconstruction Trust Fund (ARTF) is the largest World Bank-administered multidonor trust fund and the greatest single source of on-budget support for Afghanistan's reconstruction and development. Since ARTF was established in 2002, the U.S. Government, through USAID, has been the largest contributor, disbursing \$2.9 billion, or 31 percent of the \$9.6 billion from all 34 international donors as of March 2017. USAID's main objectives in Afghanistan include increasing economic growth; maintaining gains in health, education, and women's rights; and helping improve the performance and legitimacy of the Afghan Government.

We conducted this audit to determine whether USAID/Afghanistan adopted effective and consistent practices to provide reasonable assurance that activities implemented through ARTF contribute to achieving USAID's objectives in Afghanistan. Specifically, we assessed USAID's practices related to (1) policy, criteria, and plans to guide the use of ARTF contributions, (2) data collection and reporting on ARTF's performance, and (3) oversight of ARTF-funded activities.

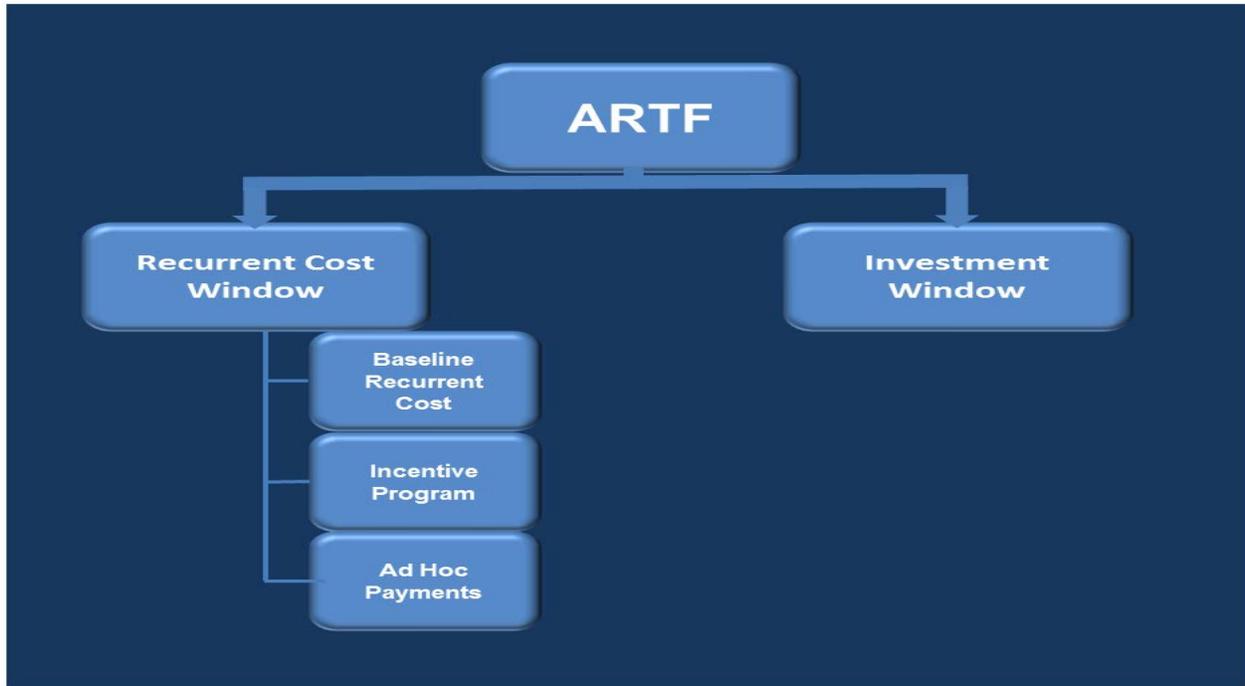
To conduct our work, we interviewed officials from USAID, the World Bank, and other international donors; analyzed the mission's planning, oversight, and reporting processes; and reviewed a judgmentally selected sample of contributions that USAID/Afghanistan made to ARTF from March 2012 to April 2016. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides details of our scope and methodology.

BACKGROUND

ARTF was established in 2002 to improve the effectiveness of international reconstruction efforts in Afghanistan. Key ARTF objectives include aligning those efforts with Afghan Government priorities, promoting transparency and accountability, building capacity in Afghan Government institutions, and enhancing coordination among donors like USAID. To help meet these objectives, ARTF operates in accordance with an annual financing strategy jointly approved by the donors, the World Bank, and the Afghan Government.

ARTF funds flow to the Afghan Government through two major categories, or “windows” (figure 1).

Figure 1. ARTF Funding Windows



Source: OIG analysis of ARTF information.

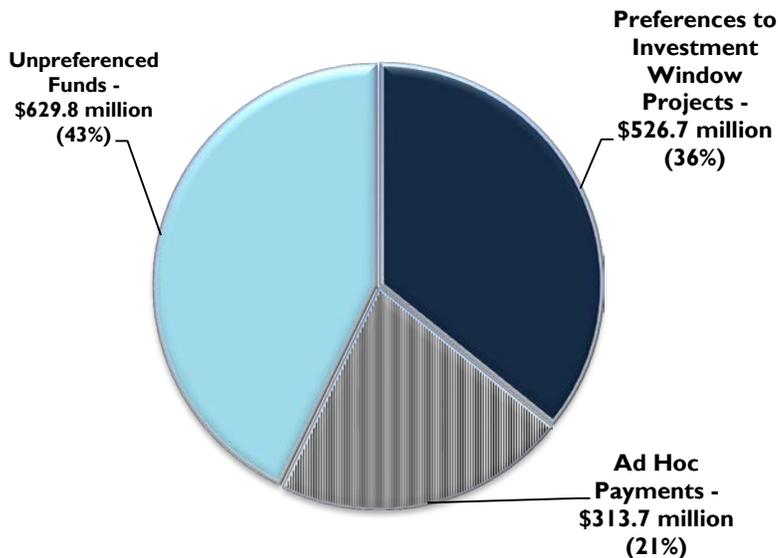
- The recurrent cost window reimburses the Afghan Government for civil service salaries and other routine expenses through three mechanisms: baseline recurrent cost financing, an incentive program, and ad hoc payments. Baseline financing supports these expenses up to an annual ceiling established by the World Bank. Contributions to the incentive program are based on agreements between the World Bank and Afghan Government that require the Afghan Government to meet benchmarks in key areas of performance. The World Bank determines if the benchmarks are met. Conversely, contributions to ad hoc payments are based on agreements between a donor and the Afghan Government that are typically made for a specific purpose. Unlike the incentive program, ad hoc payments make the donor responsible for determining if the Afghan Government has met any required conditions or used the funds for their intended purpose. To receive funds under any of these three mechanisms, the Afghan Government files a claim for reimbursement of eligible expenses, which the World Bank reviews before payment.¹
- The investment window funds specific projects in sectors such as agriculture, infrastructure, human development, and governance that are implemented by the Afghan Government. The

¹ On a sample basis, a firm contracted by the World Bank verifies that the Afghan Government requests for reimbursement are for eligible expenses—that is, civilian salaries and operating and maintenance costs. The Special Inspector General for Afghanistan Reconstruction (SIGAR) is currently conducting an audit that focuses on the World Bank’s management of ARTF.

World Bank employs an independent supervisory agent to monitor selected projects for quality assurance and asset verification.² The agent collects data from project sites and reports findings to the World Bank and Afghan Government.

USAID can designate up to 50 percent of its annual ARTF contributions to specific investment window projects (referred to as “preferenced” contributions). Since March 2012, USAID has preferenced 36 percent of its total ARTF contributions to eight projects. In addition to preferenced contributions, USAID has used ad hoc payments for specific purposes since 2013. Contributions that are neither preferenced nor designated as ad hoc payments are “unpreferenced.”³ Figure 2 shows ARTF contributions to these three categories as of April 2016. (Appendix B provides additional details on ad hoc payments and preferenced contributions.)

Figure 2. USAID’s ARTF Contributions by Category Between March 2012 and April 2016



Source: OIG analysis of information provided by USAID/Afghanistan.

USAID’s contributions lend legitimacy to ARTF, providing a credible vehicle for smaller donors who wish to help Afghanistan but may not be able to carry out a bilateral development program. By increasing the number of countries with a political stake in Afghanistan’s future, U.S. contributions to ARTF aim to act as a force multiplier for scarce U.S. assistance funds, in addition to furthering U.S. political and development efforts in Afghanistan.

² During the audit, the supervisory agent’s scope included 5 of 22 investment window projects.

³ Unpreferenced funds are allocated by the World Bank to both the recurrent cost and investment windows in accordance with the ARTF financing strategy.

USAID's guidance for managing its agreement with the World Bank is contained in Automated Directives System (ADS) 308, "Awards to Public International Organizations." ADS 308 generally states that USAID policies are applicable to funds given to PIO recipients, but that once those "funds have been disbursed in accomplishment of a significant purpose of the award" USAID policies no longer apply post-disbursement. Mission officials stressed that USAID's purpose in contributing to ARTF is to provide consistent and predictable funding to the Afghan Government, which in turn helps maintain its stability.

Once funds are disbursed, USAID relies on PIOs like the World Bank to perform fiduciary responsibilities. However, the mission routinely participates in multiple forums that oversee ARTF, such as the following:

- The Steering Committee, made up of all donors, which aims to meet quarterly and focuses on high-level policy and strategy decisions.
- The Strategy Working Group, made up of representatives from the Afghan Ministry of Finance and the largest donors, which meets regularly to discuss ARTF's overall implementation.
- Technical working groups, in which the mission's technical offices work with the World Bank and other donors on project design and implementation. The frequency of these meetings depends on the maturity of the specific project.
- The Gender Working Group, which meets quarterly to discuss gender issues affecting the ARTF portfolio and provides updates to the Strategy Working Group.

USAID/Afghanistan's agreement officer's representative (AOR), who is assigned to the mission's program office, is responsible for the technical and administrative oversight of ARTF. Even though the AOR is the primary liaison between the mission and ARTF, representatives of technical offices overseeing preferenced investment window projects also meet with officials from the World Bank, other donors, and the Afghan Government.

SUMMARY

USAID lacked adequate guidance and plans for making ARTF contributions. USAID did not have policies and procedures for verifying that ad hoc payments were used for their intended purposes, increasing the risk of funds being disbursed without prudent safeguards. For example, USAID/Afghanistan made ad hoc payments totaling \$3.6 million to cover certain salaries and information technology equipment without a mechanism to verify that the Afghan Government used the funds as intended. In addition, although USAID policy requires missions to prepare a project appraisal document (PAD) that codifies how each project will contribute to the mission's development strategy, the mission did not transition to a PAD for ARTF until October 2016—almost 5 years after USAID formally adopted the process. Instead, USAID continued to follow an activity approval document (AAD)—part of an obsolete planning process—to guide its ARTF contributions. The mission's ARTF AAD lacked the detail and rigor of a PAD. Even after developing a PAD in late 2016, USAID's planning requirements emphasize

long-term, sustainable development results, although programs in nonpermissive environments like Afghanistan may focus on short-term objectives such as stabilization and security.⁴ Finally, we identified weaknesses in the plans for individual projects that received ARTF funds, such as System Enhancement for Health Action in Transition (SEHAT). For this project, USAID made preferences of over \$107 million that did not comply with its planned budget or implementation letter.

USAID has not adequately measured or reported how ARTF assists in achieving development objectives, despite requirements for each mission to collect, maintain, and review performance results. Fulfilling these requirements helps justify missions' resource allocations and budget requests, and promotes transparency in foreign assistance to Congress and the public. However, the mission did not report results from 91 percent of ARTF contributions in its 2013 to 2015 annual reports. In short, USAID/Afghanistan has not defined, measured, or linked ARTF performance results to its development objectives, limiting the mission's ability to assess progress in meeting its objectives, identify and examine performance trends, and establish reasonable expectations for succeeding years. One reason these problems occurred is uncertainty about how ARTF fits into the mission's transition strategy. Another reason is that once USAID considered merely giving funds to ARTF as accomplishing a significant purpose of the award, ADS 308 made monitoring and performance reporting inapplicable after disbursement.

USAID's agreement with the World Bank stipulates that any donor may review or evaluate activities financed by ARTF. However, in contrast to ARTF's other top donors—which regularly assess the overall performance of activities across the ARTF portfolio—USAID has not formally conducted an evaluation of ARTF activities. In addition, AORs did not meet essential oversight responsibilities, such as monitoring the progress of investment window projects and maintaining adequate files. These weaknesses were due in part to undefined roles and responsibilities and to inadequate coordination and communication between the AORs and mission technical offices. High AOR turnover and a lack of institutional memory contributed to these weaknesses. Personnel were generally unaware why previous decisions were made or actions taken because ARTF files lacked documentation.

To improve oversight practices and better ensure ARTF supports USAID's development objectives in Afghanistan, we are making 11 recommendations.

⁴ Agency guidance defines nonpermissive environments as countries that have “significant barriers to operating safely and effectively due to [...] armed conflict, repression of political activity, and/or uncontrolled criminality, including corruption.”

USAID LACKED ADEQUATE GUIDANCE AND PLANS FOR MAKING ARTF CONTRIBUTIONS

The mission lacked guidance on appropriate use of ad hoc payments, and policies to document the basis for the amount and timing of ARTF contributions. Although sound planning and guidance establish a framework for achieving USAID’s development objectives in Afghanistan while safeguarding U.S. funds, the mission used an obsolete planning document for its ARTF contributions. In addition, USAID preferred millions to projects without prudent financial plans and detailed budgets.

USAID LACKED FULL GUIDANCE FOR USING AND VERIFYING AD HOC PAYMENTS

Millions of dollars in USAID ARTF contributions have been used for ad hoc payments—a disbursement mechanism unique to ARTF. These payments are based on agreements between an individual donor and the Afghan Government and are typically made for a specific purpose. Used properly, ad hoc payments can provide a rapid, flexible means for the U.S. Government to support geostrategic interests. For example, USAID disbursed \$75 million in emergency financial assistance to the newly formed Afghan National Unity Government within 10 days of its initial request, although USAID’s normal planning processes take 3 to 6 months or longer.⁵

In making grants to a PIO, USAID relies greatly on the PIO’s internal controls and ability to carry out its fiduciary responsibilities. However, the World Bank does not oversee ad hoc payments as it does other USAID ARTF contributions. World Bank officials confirmed that the World Bank “does not follow what the money is used for,” and that USAID has to “figure out a way” to enforce its agreements with the Afghan Government regarding ad hoc payments. Nonetheless, USAID guidance does not include criteria for determining the legitimacy and timing of ad hoc payments, or processes for verifying that the Afghan Government used them as intended.

The lack of complete guidance increases the risk that funds might be disbursed for questionable purposes. For example, despite the objections of a senior mission official, USAID/Afghanistan contributed more than \$3.6 million in ad hoc payments—to cover salaries in the offices of the Afghan President and the chief executive officer and to pay for information technology equipment—without appropriate safeguards to help ensure the funds would be used for their intended purposes. Notably, the implementation letters for these disbursements lacked provisions enabling USAID officials to verify the use of funds. According to a former mission official, he orally verified that the salaries were received by the intended recipients. However, without documentation in the AOR files, verification cannot be assumed, and the current AOR was not aware of the oral verification. With regard to the information technology equipment to

⁵ The National Unity Government was formed between President Ashraf Ghani and Chief Executive Officer Abdullah Abdullah with the assistance of the United States after the contested 2014 Afghan Presidential election. Shortly after its formation, the National Unity Government faced a shortfall of approximately \$537 million in meeting routine salaries and other expenses. The U.S. Government ultimately contributed \$100 million.

be installed in the Administrative Office of the President, a mission official said in August 2016 that the Afghan Government had probably not purchased the equipment yet.⁶

Without guidance specifying legitimate uses of ad hoc payments, some requests from the Afghan Government also run the risk of becoming recurring items. For example, the mission recently received a second request to pay for salaries in the Chief Executive Office, although in granting the previous request, USAID said it was a one-time payment. These are items that the Afghan Government should develop the capacity to include in its budget.

After our fieldwork, USAID said it has developed guidance on the use of ad hoc payments. The guidance states that requests from the Government of Afghanistan for support through ad hoc payments are to be evaluated based on political urgency; development need; relevance to the current USAID strategy, projects, and activities; and appropriateness of the ad hoc payment mechanism compared with alternatives.⁷ According to USAID, use of ad hoc payments will be documented with an action memorandum to the mission director describing the proposed activity. Following through on these planned actions—and supplementing them with verification procedures—will be key to ensuring proper use of ad hoc payments going forward.

USAID LACKED AN ADEQUATE PLAN FOR ARTF

For certain types of assistance, the Foreign Assistance Act prohibits Federal obligations over \$500,000 to be made without detailed plans that include sound cost estimates.⁸ To better comply with the act, in 2012 USAID adopted a new planning process that culminates in a PAD.⁹ The PAD requires detailed budgets, monitoring approaches, performance indicators that align with the mission's performance management plan, and a description of how a project will lead to desired outcomes. The process applies to projects with substantive changes after 2012 as well as to new projects.

However, the mission did not fully switch to a PAD for ARTF until October 2016—almost 5 years after it formally adopted the process. Instead, USAID continued to follow an AAD—an obsolete planning document—to guide its ARTF contributions. The mission's ARTF AAD lacked the rigor of a PAD and had these specific weaknesses:

- USAID/Afghanistan's ARTF AAD was 9 pages. In contrast, its ARTF PAD, developed in October 2016, is 34 pages with over 90 pages of annexes, which include a project description; mandatory gender, sustainability, and environmental analyses; and planned funding levels for the ARTF recurrent cost window by fiscal year.

⁶ USAID made the ad hoc payment of \$663,550 for this equipment in April 2016.

⁷ This guidance is contained in the mission's ARTF PAD, approved in October 2016. PADs are discussed in detail in the following section.

⁸ Public Law 87-195.

⁹ ADS 201, "Planning," March 23, 2012.

- The mission did not amend the ARTF AAD to refer to SEHAT and other investment window projects that USAID preferenced after its initial preferenced contributions.¹⁰
- The ARTF AAD did not refer to unpreferenced contributions or ad hoc payments, which account for 52 percent (\$763.4 million) of USAID’s ARTF contributions.¹¹ Consequently, it did not describe how these contributions and payments help achieve the mission’s development objectives. It simply listed the objectives of ARTF and three USAID development objectives, without explaining how the activities supported by ARTF address these development objectives—to increase the effectiveness of the Afghan Government, improve access to quality education services, and promote stability sufficient for basic governance and sustainable development.

The ARTF AOR could not explain why the AAD was not amended until August 2015 because he did not arrive at post until October 2015 and could not find any documentation explaining the delay. Moreover, mission staff said they believed that the ARTF AAD automatically included unpreferenced contributions because it described the uses of the recurrent cost window, so no amendment was needed.

Finally, USAID has not developed specific planning criteria for nonpermissive environments that acknowledge the need for flexibility while recognizing the need to measure and assess progress to keep projects on track. While USAID’s planning requirements, including PADs, are geared toward achieving long-term, sustainable development results, many programs in nonpermissive environments focus on shorter term objectives, such as country stabilization and security. For example, the mission’s Stabilization Unit developed the ARTF AAD in early 2012 when there were approximately 90,000 U.S. troops in Afghanistan to help stabilize the country. One mission official said that the inability to meet USAID’s planning requirements stemmed from attempts “to fit wartime actions into peacetime structures.” Another added, “If normal procedures are followed, actions to address a crisis may not come fast” enough. USAID has recently revised its planning policy to encourage missions to “manage adaptively” by developing customizable processes better suited to local contexts.¹² This change gives USAID an opportunity to develop specific guidance addressing the problems cited by officials who worked in Afghanistan. The Agency has numerous current and former officials with significant experience in nonpermissive environments who could work on an expert panel to develop new guidance.

¹⁰ While the mission lacked an overall ARTF PAD until October 2016, it had PADs in certain sectors that received ARTF funds. SEHAT is part of the Integrated Health Services and Strengthening PAD.

¹¹ From 2011 to 2015, USAID/Afghanistan’s performance management plan included eight assistance objectives. The 2015-2018 performance management plan decreases the number of development objectives (previously called assistance objectives) to three. However, the three objectives encompass the same goals as the previous performance management plan that are relevant to ARTF—expanding sustainable agriculture-led economic growth; maintaining gains in health, education, and women’s rights; and improving the performance and legitimacy of the Afghan Government.

¹² ADS 201, “Program Cycle Operational Policy,” effective September 7, 2016. Previous versions of ADS 201, plus ADS 202 and ADS 203, have been superseded. Any citations to ADS 201, 202 and 203 in this report refer to requirements in place during the audit period.

USAID CONTRIBUTED MILLIONS TO PREFERRED ARTF PROJECTS WITHOUT PRUDENT FINANCIAL PLANS AND DETAILED BUDGETS

USAID requires missions to prudently plan, monitor, and manage the financial aspects of their projects.¹³ This requirement includes documenting a project’s financial plan and detailed budget in the PAD.¹⁴ Yet USAID/Afghanistan did not substantiate in the sector-specific PADs the amount and timing of contributions for four of the five preferred ARTF projects we reviewed, as described below. Together, these projects total \$286 million, or more than 54 percent of the approximately \$527 million that USAID/Afghanistan has preferred to eight ARTF projects since March 2012.

- **System Enhancement for Health Action in Transition (SEHAT).** Health services throughout Afghanistan were originally financed by USAID, the World Bank, and the European Union. The areas supported by the European Union and the World Bank were later combined as SEHAT. USAID developed a PAD that included SEHAT, and subsequently joined SEHAT in January 2014. As shown in table 1, the implementation letter contained the mission’s estimated contributions over 5 years.¹⁵

Table 1. SEHAT’s 5-Year Budget by Component^a (in U.S. Dollars)

Component	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018	All Years
1	-	\$50,188,141	\$52,297,548	\$54,512,425	\$47,365,038	\$204,363,152
2	\$2,126,357	4,090,729	3,955,413	3,691,719	3,391,766	17,255,984
3	800,000	1,600,000	1,440,000	1,224,000	979,200	6,043,200
Total	2,926,357	55,878,870	57,692,961	59,428,144	51,736,004	227,662,336

^a SEHAT’s three components are (1) sustaining and improving the Basic Package of Health Services and the Essential Package of Hospital Services, (2) building the stewardship capacity of the Ministry of Public Health and system development, and (3) strengthening program management.

Source: Implementation Letter Number 43-01 between USAID/Afghanistan and two Afghan Government entities: the Ministry of Finance and the Ministry of Public Health.

USAID made preferences that did not comply with either the budget or the condition specified in the letter. The budget in the PAD for component one, representing activities in areas originally supported by USAID, was initially zero because those areas were not expected to become part of SEHAT until January 2015. However, the mission preferred

¹³ ADS 202.3.7.1, January 25, 2012.

¹⁴ USAID policy (ADS 201.3.16.4, October 1, 2015) also states that any time a budget or financial plan is revised, staff “must modify the PAD to document the revision.”

¹⁵ ADS 200, “Introduction to Programming Policy,” December 11, 2015, defines an implementation letter as “formal correspondence between USAID and another party following a formal agreement that obligates funding. [...] Implementation letters serve several functions, including providing more detailed implementation procedures, providing details on terms of an agreement, recording the completion of conditions precedent to disbursements, and approving funding commitments and mutually agreed upon modifications to program descriptions.”

\$43.2 million in May 2014 without amending the PAD. In December 2014, the mission preferred another \$64.2 million, just days after telling the Afghan Government that implementation in these areas would be postponed until July 2015. This contradicted the implementation letter, which stated, “Funding for subsequent years will be conditioned upon satisfactory completion of progress towards the targets.” Finally, while budgets were provided in year 1 for components two and three, these components had not begun at the time our fieldwork concluded.

Despite significant contributions to SEHAT—over \$107 million since May 2014—mission officials could not explain how the amount and timing of preferences were determined. No documentation of the calculation of either contribution was available.

- **Second Education Quality Improvement Program (EQUIP II).** By September 2013, USAID had contributed \$80 million for teacher education and training—63 percent more than the \$49 million originally budgeted under EQUIP II. Mission officials were unable to locate documentation explaining the increase, and contrary to USAID policy—which states that the budgets in a PAD are the basis for project funding and budgeting. One official said the PAD budgets were “illustrative.”¹⁶

In September 2014 the mission preferred another \$54 million to EQUIP II that, according to a senior mission official, was not motivated by program needs but by the need to reduce its education pipeline¹⁷ and avoid deobligation of funds.¹⁸ This official said that contributing funds through ARTF was the quickest way to respond to pressure from USAID officials in Washington to reduce the mission’s education pipeline, which was \$184 million in June 2014 and \$177.5 million a year later. One reason cited for the excessive pipeline was a delay in contributing to EQUIP III, which the World Bank is still designing.

- **Second Public Financial Management Reform Project (PFMR II).** The basis for the initial \$6 million preferred contribution to PFMR II in September 2013 was not documented. Mission staff stated the intention for funding PFMR II came from another project that had similar activities. However, those activities were never implemented, project descriptions were not comparable, and the budget was not related to PFMR II. Additionally, the economic growth office was not aware of the \$6 million preference, which was not from its budget. However, the World Bank published this information in its monthly financial report, which is posted on its website, and both the AOR and technical office are responsible for staying abreast of this information.

A second contribution of \$4 million was also not based on a PAD. Instead, the preferred contribution was made in an effort to meet the mission’s annual ARTF pledges at the London and Tokyo donor conferences.¹⁹

¹⁶ EQUIP II is part of the Basic Education, Literacy, and Training PAD.

¹⁷ A pipeline is defined in ADS 602 as “the amount of funds obligated but not expended.”

¹⁸ ADS 602.3.7 states that “any amounts identified as excessive [. . .] may be considered candidates for deobligation.”

¹⁹ Every 2 years, the Afghan Government and the international community gather to discuss development priorities and pledge continued financial support. Previous conferences include Tokyo (2012), London (2014), and Brussels (2016).

- **Third National Solidarity Program (NSP III).** NSP III was included in the ARTF AAD to support counterinsurgency and stabilization efforts. According to a former AOR, the mission stopped preferencing to NSP III in 2013 after an independent review concluded that NSP III had no profound effect. In December 2015, the mission again preferenced funds to NSP III as part of its response to the Afghan Government’s “Jobs for Peace” initiative but did not amend the ARTF AAD or develop an ARTF PAD in accordance with Agency guidance then in effect to capture the contribution’s different purpose and expected results.

USAID missions are required to use evidence to justify their commitment of resources. However, according to a senior mission official, decisions to make these preferenced contributions to SEHAT, EQUIP II, PFMR II, and NSP III were driven, in part, by expediency. Specifically, the official noted that contributing to ARTF is the best and easiest way to provide on-budget assistance to the Afghan Government and meet the United States’ 50 percent commitment made at donor conferences. The ultimate goal of these commitments is to build up the legitimacy of the Afghan Government and diminish the insurgency. Emphasizing on-budget funding commitments like that in Afghanistan, however, involves difficult tradeoffs between strengthening the ability of recipient governments to carry out their own initiatives through timely infusions of funds and USAID’s ability to conduct robust planning and oversight. Given the lack of a documented rationale for continued ARTF preferences, these contributions may not have represented the best use of USAID funds.

USAID HAS NOT ADEQUATELY MEASURED OR REPORTED ON HOW ARTF ASSISTS IN ACHIEVING AGENCY DEVELOPMENT OBJECTIVES

While ARTF has accounted for almost a quarter of USAID’s assistance in Afghanistan since March 2012, measurement and reporting on contributions have not been adequate to inform decision makers on whether USAID assistance is achieving the Agency’s development objectives. Moreover, the mission made additional preferences to ARTF investment window projects without evidence that it had assessed their performance.

USAID Forward—the Agency’s 2010 reform agenda—emphasized pursuing “a more strategic, focused, and results-oriented approach” to the Agency’s activities. Consistent with this agenda, USAID policy requires missions to:

- Continually monitor performance to determine if desired results for development objectives are on track and measurable through performance indicators listed in the mission’s performance management plan.²⁰

²⁰ According to ADS 203.3.3, November 2, 2012, the mission’s performance management plan “is a tool to plan and manage the process of [...] analyzing progress toward achieving results [and] informs decision-making and resource allocation.”

- Collect, maintain, and review performance results.²¹
- Report results in the annual performance plan and report.

Fulfilling these requirements helps justify missions' resource allocations and budget requests, and promotes transparency in foreign assistance. Although some preferred activities, like EQUIP II, were included in sector-specific PADs, USAID/Afghanistan lacked an overall monitoring and evaluation plan aligning all ARTF activities and selected performance indicators with the mission's strategy and USAID's development objectives in Afghanistan. Consequently, from 2013 to 2015, USAID only reported results from EQUIP II, which accounts for only 9 percent of the mission's ARTF contributions.

Furthermore, our assessment of USAID's reporting on EQUIP II indicates that its reported results may be overstated or understated because the mission used a different basis each year to determine the percentage of EQUIP II's total results that should be attributed to USAID's contribution. Mission officials were unable to explain these variations because the methodology and sources were not documented. Although the Agency has defined what attribution is, it has not established guidance on how to calculate the share of ARTF results attributable to USAID contributions.²²

Results attributable to the remaining 91 percent of ARTF contributions that USAID did not have in its annual reports from 2013 to 2015 include the following:

- **Unpreferred contributions and ad hoc payments.**²³ Results for these contributions and payments, which accounted for 52 percent of USAID's total ARTF contributions, were not reported because the mission has not established any performance indicators.
- **SEHAT.** The mission's flagship health activity has not reported performance results since USAID started its contributions in May 2014 because the health services in the 13 provinces USAID directly supported were not transferred to SEHAT until July 2015 and there were significant delays in the other components.

The mission acknowledged that it was not adequately reporting ARTF achievements in its performance management plan and performance plan and reports. The issue was also identified in the mission's annual risk assessment, which states that its "funding cannot be directly tied to ARTF results." This is partly because the mission was not sure how ARTF fit into its Plan for Transition 2015-2018 strategy or will fit into the mission's performance management plan.²⁴

²¹ ADS 203.3.2, November 2, 2012.

²² According to the ADS glossary, "USAID can claim credit for a result, even when other partners are involved in achieving the results, if USAID can claim that without USAID intervention the outcome would not have taken place."

²³ One new project funded through the ad hoc payments mechanism, the New Development Partnership, was not included.

²⁴ The USAID/Afghanistan performance management plan has not been formally approved. However, mission staff are using the document as a guide to measure progress toward achieving the development objectives.

Most significantly, these problems occurred because USAID has traditionally interpreted the “purpose accomplished upon disbursement”²⁵ language in ADS 308 to mean that PIOs are exempt from monitoring. However, USAID can do more to report results and evaluate PIO performance the way it does for other partners. The ability to conduct reviews and evaluations for ARTF points in this direction, and the work done by other donors in this area signals their demand for more accountability. Given the enormous stakes in Afghanistan for the United States and its allies, USAID can no longer rely on the one-size-fits-all language of ADS 308, but instead must adopt more of the “relentless focus on results” demanded by USAID Forward.

Mission officials said they recently began taking actions to improve performance measurement practices. For example, mission officials said they undertook an indicator alignment exercise to determine how ARTF activities are linked to the mission’s performance management plan and contribute to the mission’s development objectives. Mission officials also told us that one anticipated result is to ensure that more of ARTF’s performance results are included in the mission’s annual performance plan and reports. Finally, in a newly revised mission order on monitoring, mission officials have required that AORs of PIO awards use monitoring tools and report pertinent data in USAID’s Afghan Info database.²⁶ Reporting ARTF results through the performance management plan and performance plan and reports could assist USAID in determining progress toward achieving its long-term development objectives in Afghanistan.

USAID NEGLECTED KEY RESPONSIBILITIES FOR EVALUATING AND MONITORING ARTF CONTRIBUTIONS

USAID’s oversight practices have not provided reasonable assurance that ARTF contributions are achieving its objectives. Specifically, USAID has not formally reviewed or evaluated ARTF activities, and AORs did not carry out essential responsibilities for monitoring and reporting on ARTF’s progress in meeting USAID development objectives.

USAID HAS NOT FORMALLY EVALUATED ARTF ACTIVITIES

USAID policy emphasizes evaluation to provide accountability and foster learning and improvement. USAID’s legally binding grant agreement with the World Bank states:

Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation and the Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial,

²⁵ ADS 308.3.11, “Application of USAID Policies and Procedures,” states that “once funds have been disbursed in accomplishment of a specific purpose of an award, the funds are no longer considered USAID’s, and the Agency’s policies and procedures, including the return of interest, no longer apply.”

²⁶ Afghan Info is a database USAID uses to report its foreign assistance activities and spending. The database is not available to the public.

compliance or other audit of the Trust Fund and will be separate from any independent evaluation of the Trust Fund to be arranged by the Bank.

However, USAID—the largest ARTF donor—has not conducted a formal evaluation of ARTF activities. The other four major donors we spoke with report that they regularly assess ARTF activities to determine overall performance and justify further funding to their constituents. One donor developed a project dedicated to monitoring and evaluating ARTF, and another said it has an entire team dedicated to conducting these types of evaluations.

An official with one major donor said that evaluations were “incredibly useful” in influencing ARTF management to increase programming flexibility to support Afghan Government priorities and respond to emerging needs. For example, the evaluations have helped senior officials quickly identify poorly performing ARTF projects and trigger a performance improvement plan to focus resources on them.

Ideally, donors including USAID would build on one another’s reviews and evaluations to eliminate duplication and maximize efficiency. Many donor assessments are publicly available. One donor noted that information from the ARTF website and interviews with officials from the World Bank, the Afghan Government, and other stakeholders informed its review.

Most USAID officials we interviewed were not aware that evaluations of ARTF-funded activities were permitted because the World Bank is a PIO. While a senior Agency procurement official—who was the agreement officer when the USAID-World Bank agreement was signed—understood that evaluations of ARTF-funded activities were permitted, some mission officials said that ADS 308 precludes evaluations of ARTF because once the mission “documents how the disbursements accomplish a significant purpose of the grant, the Agency’s policies and procedures no longer apply post-disbursement.”²⁷ All 12 mission officials we interviewed who participated in activities implemented through ARTF were unaware of their authority to conduct ARTF evaluations. Nonetheless, one mission official said that the point of funding ARTF is to reduce USAID’s administrative burden because the mission relies primarily on the World Bank to manage, monitor, and evaluate ARTF activities. A mission lawyer was surprised that the grant agreement permitted evaluations because it went against everything he had heard regarding PIOs.

Contributing to the lack of evaluations was high staff turnover at the mission—a problem identified in the mission’s annual internal controls assessment²⁸—coupled with the perception that ADS 308 permitted a hands-off approach toward PIOs.

AORS DID NOT MEET ESSENTIAL RESPONSIBILITIES FOR MONITORING ARTF PROGRESS

The AOR performs key technical and administrative functions, as specified in a designation letter. All ARTF designation letters require the AOR to monitor progress toward meeting

²⁷ ADS 308.3.11(b).

²⁸ USAID/Afghanistan highlighted this as a deficiency in its fiscal year 2015 Federal Managers’ Financial Integrity Act of 1982 certification and included it in the mission’s Corrective Action Plan.

ARTF's objectives. The designation letters also stress the importance of maintaining adequate files as the "primary tools for carrying out [the] duties and responsibilities as the AOR," and must include documentation of actions as well as all correspondence. Agency guidance states that the AOR may designate project/activity managers to assist in monitoring. Despite these requirements, the numerous AORs who have worked on ARTF over the years did not meet essential responsibilities, reducing assurance that ARTF is meeting USAID's development objectives.

Specifically, AORs fell short in the following areas:

- **Monitoring progress of investment window preferences.** ARTF AORs left monitoring of investment window preferences to their respective technical offices, with no regular interaction between them. Consequently, mission staff did not inform AORs of problems related to SEHAT²⁹—such as slow rollout of components, low capacity of SEHAT staff at the World Bank, and poor communication between ARTF and the Ministry of Public Health—until 2016, approximately 2 years after USAID's initial contribution. Not knowing about these performance problems, AORs did not elevate them to be addressed in high-level forums such as the Strategy Working Group.
- **Reporting ARTF results.** AORs left reporting annual project results to the discretion of individual mission offices, and USAID's fiscal year 2013 to 2015 annual reports included results from only one of its eight preferred ARTF projects, EQUIP II. Omitting results from ARTF's other projects not only fails to inform Congress and the public about the progress of USAID's activities in Afghanistan, but also diminishes transparency in foreign assistance.
- **Maintaining adequate files.** AOR files generally were disorganized and incomplete. Some documents requested during our audit were not available because, according to mission officials, they did not exist, were lost, or could not be found by staff. Specifically, AOR files did not include (1) a list of personnel helping the AOR manage ARTF, as required by the designation letter; (2) the basis for determining the timing and amounts of contributions to ARTF, including those that were preferred to various investment projects; (3) reviews of audit reports, annual and quarterly performance reports, monitoring agent reports, and any followup deemed necessary; and (4) communications between the technical offices and AOR regarding preferred projects.

These weaknesses were largely due to these factors:

- **Lack of specificity in designation letters.** Four of the five AOR designation letters we reviewed contained only a general statement that the AOR was responsible for monitoring the recipient's progress and verifying compliance with the terms of the award. AOR requirements for reviewing various reports and tracking communications between the

²⁹ SEHAT is USAID/Afghanistan's largest health project and accounts for almost 52 percent of the health budget.

World Bank and technical offices were specified in only one designation letter. (Appendix C provides a comparison of selected language from these designation letters.)

- **No periodic file reviews.** According to a senior procurement official at the mission, agreement officers did not periodically spot-check AOR files. Although the requirement for AORs to maintain adequate files has been a longstanding feature of designation letters, USAID has not enforced this requirement by assessing compliance with it in employee performance reviews. The mission is working to increase compliance with acquisition and assistance administrative requirements.
- **Delays in designating project/activity managers.** The right to designate activity managers was not in the AOR designation letter until February 2015. While technical offices appointed contacts for each preferenced ARTF project, they did not have the defined roles and responsibilities associated with a formal project/activity manager designation until July 2016.

Designated ARTF activity managers we interviewed were unsure of their exact responsibilities regarding oversight. Although these officials—representing all five technical offices with ARTF projects—have been involved with the World Bank and other stakeholders on technical matters, their undefined roles have resulted in ineffective practices across the mission.

- **No forum for regular collaboration between AORs and technical offices to exchange information.** The lack of designated activity managers and a standard mechanism to share information further hindered communication between the technical offices and AORs, resulting in inconsistent practices across the mission. For example, technical offices reported to us varying levels of involvement by AORs, who typically worked in the mission’s Office of Program and Project Development (OPPD):

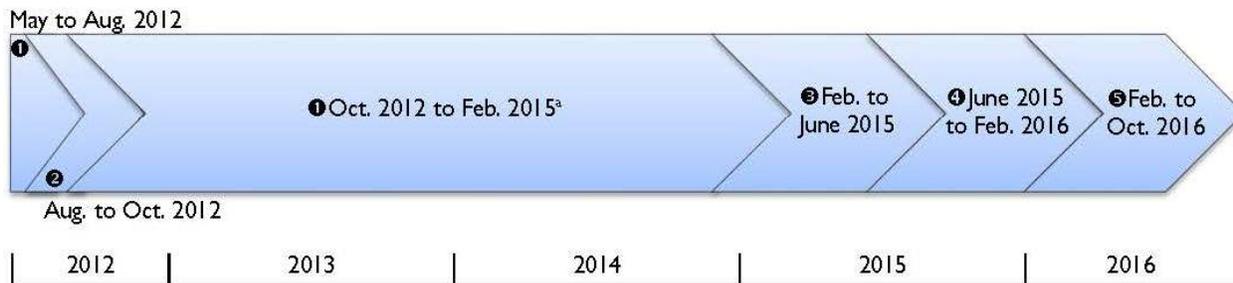
In 2014-2015, there was good coordination with [the program office]. The prior AOR would hold quarterly meetings including the technical office and the whole mission, and it was helpful because it was informative.

There is no existing relationship with OPPD; no guidance, communication received, or collaboration . . . the office need [sic] guidance and direction. The office coordinates technical level meetings themselves and never had an OPPD staff attend . . . any of their [sic] regular meetings with the line government ministry. OPPD was never involved.

[We] requested documentation many times from OPPD and were told to look up information from the ARTF website. [OPPD is] not organized and they have no plans on how to monitor the project.

Frequent technical office and AOR turnover has inhibited the mission’s ability to monitor ARTF properly. Personnel generally did not know why previous actions were taken because ARTF project files lacked documentation. Despite their critical role, many AORs serve 1-year assignments in Afghanistan. Between May 2012 and August 2016, five AORs worked on ARTF, with three serving between February 2015 and October 2016 (figure 3).

Figure 3. Turnover Among Designated AORs on ARTF



^a The first AOR was assigned to ARTF for a second term.
 Source: OIG prepared based on information provided by USAID/Afghanistan.

As the mission continues to reduce its staff, it may funnel more funds to ARTF—requiring AORs to bear more responsibility for coordinating with the entire spectrum of technical offices, senior mission management, the World Bank, and other donors. Consequently, the importance of the ARTF AOR cannot be understated. To improve its monitoring and mitigate the risks of frequent AOR turnover, the mission recently instituted an ARTF management team that includes the AOR and technical staff across the mission, with one member of the Office of Afghanistan and Pakistan Affairs (OAPA), the headquarters bureau responsible for overseeing the mission, backstopping from Washington, DC. This will provide an opportunity for OAPA to bolster its role in ARTF oversight, including providing the mission with adequate support to carry out its significant duties. OAPA’s continued involvement will be a key component in helping the Agency meet its essential responsibilities and maximizing ARTF’s ability to advance U.S. foreign policy objectives in Afghanistan.

CONCLUSION

Development and reconstruction activities are complex and difficult undertakings, particularly in a nonpermissive setting like Afghanistan. The current policy pledging 50 percent of U.S. development assistance directly to the Afghan Government or through multidonor trust funds means that ARTF will likely continue to be a prominent vehicle for the mission’s activities in Afghanistan. The inherent risk in this policy underscores the importance of consistent plans and practices to provide reasonable assurance that the Agency is achieving its development objectives in Afghanistan. Absent these practices, there is little to no accountability for achieving results and safeguarding funds. USAID now has the opportunity to reevaluate its practices regarding ARTF, namely evaluating and reporting on performance, monitoring contributions and payments, and managing pipeline spending. It also has an opportunity to tailor specific policies for nonpermissive environments, acknowledging the need for flexibility while recognizing the importance of measuring progress to keep projects on track. While the mission has taken some recent actions to improve planning and monitoring, their success or failure hinges on effective implementation, consistent follow through, and sustained support from senior leadership in headquarters, including OAPA.

RECOMMENDATIONS

We recommend that OAPA work with USAID/Afghanistan to take the following actions:

1. Establish procedures to enhance verification of conditions and promote safeguards for USAID funds disbursed through the ad hoc payments mechanism.
2. Appoint an expert panel to examine Agency planning requirements and formally document proposals to Agency senior leadership on how those requirements should be revised to reflect the unique constraints posed by operating in Afghanistan.
3. Establish policies and procedures to document satisfactory performance by Afghanistan Reconstruction Trust Fund investment window projects before preferencing any additional contributions; the basis and rationale for preferencing any additional contributions; and analysis that additional preferenced contributions for pipeline drawdown represent the best use of U.S. Government funds.
4. Develop guidance on how to consistently attribute the results of Afghanistan Reconstruction Trust Fund activities to all USAID contributions.
5. Include the Afghanistan Reconstruction Trust Fund in the mission's performance management plan.
6. Include the Afghanistan Reconstruction Trust Fund performance results in the annual performance plan and reports.
7. Establish a monitoring and evaluation plan that encompasses all Afghanistan Reconstruction Trust Fund contributions.
8. Issue a mission notice informing all personnel of the evaluation rights contained in paragraph 11(b) of the Amended and Restated Standard Provisions of the Afghanistan Reconstruction Trust Fund, and establishing procedures to increase awareness of this provision during the handover process for all Afghanistan Reconstruction Trust Fund agreement officers, agreement officer's representatives, and activity managers.
9. Conduct a formal evaluation of an Afghanistan Reconstruction Trust Fund activity or activities funded by USAID and disseminate lessons learned from this effort across the Agency.
10. Develop policies and procedures to conduct periodic spot checks of agreement officer's representatives' files, disseminate lessons learned to the mission, and incorporate the results of these spot checks into performance reviews.
11. Require regularly scheduled and documented meetings among the Afghanistan Reconstruction Trust Fund agreement officer, agreement officer's representative, and activity managers to exchange information, and require followup on any outstanding items.

OIG RESPONSE TO AGENCY COMMENTS

We provided USAID with our draft report on June 7, 2017, and on July 14, 2017, received its response, which is included as appendix D. The Agency agreed with 10 of our 11 recommendations, and disagreed with one recommendation. We acknowledge the Agency's management decisions on all 11 recommendations and final action on recommendations 2, 7, 8, 10, and 11. We disagree with the management decisions on recommendations 8 and 10.

The Agency requested that recommendation 1 be closed upon issuance based on policies described in its "Operational Guidance for Sub-Obligations to the Afghanistan Reconstruction Fund: A Guide for Mission Technical Offices." Although the Agency stated in its response to recommendation 3 that this guidance had been finalized, the document provided to us was marked "Final Draft," creating uncertainty regarding its status. The Agency stated that this guidance would be incorporated into the forthcoming Project Design Mission Order, which has a target date of September 30, 2017. We acknowledge the management decision.

The Agency's disagreement with recommendation 7 appears based on an interpretation that the recommendation required discontinuing specific monitoring and evaluation plans for investment window projects. That was not the intent of the recommendation; however, the approach adopted in the ARTF PAD, dated October 2016, is responsive.

The ARTF PAD focuses on the recurrent cost window but includes the investment cost window by referring to sector-specific PADs. The ARTF PAD includes a summary of desired results under the recurrent cost window, results indicators, data sources, assumptions and risks, and linkages to the mission's performance management plan—all components of a monitoring and evaluation plan. These actions are sufficient to meet the intent of the recommendation. We acknowledge the management decision and final action.

The Agency requested that recommendation 8 also be closed upon issuance based on the current responsibility of AORs and activity managers to be aware of all provisions in the ARTF agreement and the guidance contained in Mission Order 201.04. Although we acknowledge the management decision, we disagree because it does not directly address the main problem the recommendation intends to address—lack of awareness of the evaluation provision in the ARTF, which is exacerbated by high turnover. AOR and activity manager designation letters have historically required reading the PIO agreement, yet mission staff were still unaware of the provision. The guidance referred to in the Agency's response to recommendation 1 would be an appropriate vehicle to highlight this provision and be responsive to the intent of the recommendation.

The Agency requested that recommendation 10 be closed upon issuance based on the mission order on records management, the May 2017 Office of Acquisition and Assistance (OAA) evaluation, and OAA's authority to conduct spot checks of files. Although we acknowledge the management decision, we disagree because the response and mission order do not go far enough to institute a standardized program of periodic file review. In our opinion, establishing such a regimen is important because of high turnover in Kabul. While actions such as the

“tasker tracker” referred to in the response are positive steps, their utility depends on sustained follow through by new personnel and management.

The Agency stated in its response to recommendation 5 and 6 that ARTF investment window programming was included in the performance plan and report. We note that ARTF performance results, besides EQUIP, were not included in the performance plan and reports reviewed by the audit team (2013, 2014, and 2015).

APPENDIX A. SCOPE AND METHODOLOGY

We conducted this performance audit from December 2015 to June 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, in accordance with our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was to determine if USAID/Afghanistan adopted effective and consistent practices to provide reasonable assurance that activities implemented through the ARTF contribute to achieving USAID's objectives in Afghanistan. Specifically, we assessed USAID's practices related to (1) policy, criteria, and plans to guide the use of ARTF contributions, (2) collecting and reporting data on ARTF's performance, and (3) oversight of ARTF-funded activities.

The Special Inspector General for Afghanistan Reconstruction is currently conducting an audit that focuses on the World Bank's management of ARTF. We coordinated with SIGAR officials on the scopes of our respective audits to eliminate duplication and overlap. We also discussed areas of perceived risk.

On March 31, 2012, USAID and the World Bank entered into a grant agreement with authorized funding of up to \$1.9 billion covering March 31, 2012, to March 31, 2017. On April 26, 2016, a modification increased the estimated level of funding to \$2.7 billion and extended the agreement to July 31, 2019. As of April 2016, USAID had obligated and disbursed a total amount of \$1.5 billion to ARTF under the 2012 agreement.

We conducted fieldwork in Kabul, Afghanistan, from January 19 to September 21, 2016. The audit focused on events, activities, and performance results driven by contributions made between March 31, 2012, and April 26, 2016.

We judgmentally selected five of the eight investment window projects that USAID/Afghanistan preferred funds to after the March 2012 agreement. We selected preferred projects based on dollar value, including all projects with contributions over \$100 million, and ensured the sample included all technical offices involved in ARTF. We selected projects over \$100 million to yield the greatest amount of audit coverage given our available resources, and we selected a project from each technical office to identify inconsistencies and best practices across the mission. Because we made our preferred project selections on a judgmental basis, our results and conclusions were limited to the projects selected and cannot be projected to all preferred projects. We also reviewed 100 percent of ad hoc payments, excluding the New Development Partnership, and unpreferred contributions. Total audit scope was 86 percent, or \$1.3 billion, of the \$1.5 billion contributions to ARTF.

In planning and performing the audit, we evaluated internal controls significant to the audit objective, including planning, oversight, and monitoring processes. We reviewed the following relevant documents:

- USAID/Afghanistan’s Fiscal Year 2015 Federal Managers’ Financial Integrity Act of 1982 Annual Certification, including the uniform risk and internal control assessment.
- Policies and procedures related to the oversight and monitoring of PIOs, including mission orders.
- AOR designation letters and AOR electronic files for ARTF.
- USAID’s ARTF contribution tracker.
- Original grant agreement and modifications, including the ARTF AAD, PADs related to the preferences to investment window projects, memorandums of negotiation, and ADS 308 action memorandums.

To answer the audit objective, we obtained an understanding of USAID’s use of ARTF through document review, analysis, and interviews. Specifically, we assessed processes related to (1) policy and criteria to guide the use of ARTF, (2) planning processes for contributions to ARTF, (3) oversight of ARTF-funded activities, and (4) measurement and reporting of ARTF performance results. We corroborated our conclusions with interviews and document reviews. We inquired about allegations of fraud or noncompliance with laws and regulations. The audit work included:

- Interviewing 41 responsible officials and staff from USAID, the World Bank, and ARTF’s other large international donors—the United Kingdom, Canada, European Union, and Germany. These four donors are the largest ARTF contributors after the United States and account for approximately 39 percent of all contributions as of February 2016.
- Identifying applicable laws, regulations, and policies significant to the audit objective and relevant to the audit period. Relevant criteria included ADS and mission orders covering project design and planning, monitoring and evaluation, and awards to PIOs. We obtained background information on how the World Bank manages ARTF and how USAID interacts with the World Bank and other stakeholders on ARTF matters.
- Determining what rights USAID has to monitor, participate in, or influence ARTF activities in the context of the agreement and ADS 308, and how USAID is utilizing those rights.
- Analyzing the mission’s decision-making processes for each contribution in the audit scope. This included analyzing the ARTF AAD and amendment, and respective PADs for preferred investment window projects. When planning documentation was not available, we reviewed relevant action memorandums.
- Obtaining an understanding of the mission’s management structure regarding ARTF contributions – i.e., which technical offices are involved, what their responsibilities are regarding ARTF planning and oversight, and how they coordinate with the AOR.

- Meeting with responsible USAID/Afghanistan technical officials for each preferenced project in the audit's scope to determine their level of involvement in the planning, oversight, and monitoring of ARTF contributions.
- Analyzing the extent to which USAID/Afghanistan obtains and utilizes monitoring and evaluation performance data provided by the World Bank and other stakeholders— including if ARTF performance data was included in the annual performance plan reports and performance management plans.
- Reviewing assessments and evaluations conducted by other donors of ARTF activities.

To determine USAID's development objectives and goals for Afghanistan, and what role ARTF plays in addressing them, we reviewed the following:

- The USAID/Afghanistan Plan for Transition 2015-2018. There was no transition plan in place covering 2012-2014.
- U.S. Foreign Assistance for Afghanistan Post Performance Management Plan 2011-2015.
- USAID/Afghanistan Performance Management Plan: Afghanistan Implementation Plan for Transition 2015-2018.
- USAID/Afghanistan's Performance Plan Report for fiscal years 2013, 2014, and 2015.
- USAID/Afghanistan's portfolio reviews for fiscal year 2015.

For a broader understanding of ARTF's implementation structure and the mission's oversight, we utilized the following documents and other sources of information:

- ARTF Financing Strategy Solar Years 1391-1393 (2012-2014).
- ARTF Financing Strategy Solar Years 1394-1396 (2015-2017).
- FY1393 Update to the ARTF Financing Strategy.
- Tokyo Conference on Afghanistan—the Tokyo Declaration Partnership for Self-Reliance in Afghanistan, From Transition to Transformation, July 8, 2012.
- The London Conference on Afghanistan—Afghanistan and International Community: Commitments to Reforms and Renewed Partnership, December 4, 2014.
- U.S. Department of the Treasury—Report to Congress on World Bank-Administered Trust Funds, December 2015.

To answer the audit objective, we relied extensively on the computer-processed data contained in USAID's ARTF contribution tracker file. To test the data, we traced all key information in the file to the source documentation. The results of these tests led us to conclude the data are sufficiently reliable to support the report's findings, conclusions, and recommendations.

APPENDIX B. CONTRIBUTIONS BY CATEGORY AS OF APRIL 2016

Table 2. Ad Hoc Payments as of April 2016

Activity	Description	USAID Disbursement
Tokyo Mutual Accountability Fund ^a	Incentivized payments to bring about Afghan Government reforms through satisfactorily achieving hard deliverables agreed upon between USAID and the Afghan Government. These reforms were established through the Tokyo Mutual Accountability Framework in July 2012.	\$30,000,000
Fiscal Gap Assistance ^a	U.S. State Department and USAID's response to address the Afghan Government's request for assistance to its fiscal gap crisis. This was done to prevent further instability and motivate other donors to proceed with their own fiscal gap responses.	100,000,000
Salaries and Operation Costs to the President's and Chief Executive Officer's Offices ^a	USAID's response to the Afghan Government's request to fund salaries and operation and maintenance costs.	3,000,000
New Development Partnership	A bilateral development partnership between the U.S. Government and the Afghan Government. It is a program designed to incentivize the Afghan Government to achieve three objectives—ensure fiscal sustainability, build better governance, and reduce poverty.	180,000,000
Information and Communication Technology to the President's Office ^a	For information and communication technology equipment and systems needs of the Administrative Office of the President.	663,550
Total Ad Hoc Payments		313,663,550

^a Judgmentally selected for audit analysis. The New Development Partnership was not included in the scope of the audit.

Table 3. ARTF Investment Window Projects USAID Preferred as of April 2016

Activity	Description	USAID Disbursement^a
Third National Solidarity Program ^b	NSP III aims to build, strengthen, and maintain community development councils as effective institutions for local governance and social-economic development.	\$210,000,000
Second Education Quality Improvement Program ^b	EQUIP II is designed to increase access to quality basic education through school grants, teacher training, and strengthened institutional capacity.	134,000,000
System Enhancement for Health Action in Transition ^b	SEHAT is intended to improve the quality and coverage of health services provided to the Afghan population, and strengthen health system management by the Ministry of Public Health.	107,473,520
On Farm Water Management Project (OFWMP) ^b	OFWMP's goal is to improve agricultural productivity by enhancing the efficiency of water used.	39,250,000
Higher Education Development Project (HEDP)	The project is supporting Afghanistan's national Higher Education Strategic Plan 2015-2020.	17,000,000
Second Public Financial Management Reform Project ^b	The project's goal is to improve public financial management by strengthening audit, treasury, and procurement systems.	10,000,000
Capacity Building for Results Facility (CBR)	CBR aims to incentivize reforms and build capacity within selected Afghan Government ministries.	5,000,000
Afghanistan Resource Corridors—Project Preparation Grant (LARA)	LARA is designed to build the institutional capacity of the Afghan Land Authority.	4,000,000
Total Preferences to ARTF Investment Window Projects		526,723,520

^aAmounts reflect disbursements made after March 2012. USAID has preferred to some investment window projects prior to the audit scope period dating back to 2002.

^bJudgmentally selected for audit analysis.

Table 4. Total USAID Contributions to ARTF Between March 2012 and April 2016

Activities	Date	Contributions	Totals
Unpreferred Contributions (43%)			\$629,782,010
	03/31/2012	\$166,243,600	
	09/28/2013	162,585,500	
	12/08/2014	153,000,000	
	11/23/2015	147,952,910	
Ad Hoc Payments (21%)	various		313,663,550
Preferred Contributions (36%)			526,723,520
NSP III	03/31/2012	175,000,000	
	12/30/2015	35,000,000	210,000,000
EQUIP II	03/31/2012	30,000,000	
	09/28/2013	50,000,000	
	09/18/2014	54,000,000	134,000,000
SEHAT	05/13/2014	43,228,456	
	12/08/2014	64,245,064	107,473,520
OFWMP	12/08/2014	15,000,000	
	12/30/2015	24,250,000	39,250,000
HEDP	12/30/2015	17,000,000	17,000,000
PFMR II	09/28/2013	6,000,000	
	12/30/2015	4,000,000	10,000,000
CBR	12/08/2014	5,000,000	5,000,000
LARA	05/13/2014	4,000,000	4,000,000
Total			1,470,169,080

APPENDIX C. COMPARISON OF ARTF AGREEMENT OFFICER'S REPRESENTATIVES' MONITORING RESPONSIBILITIES

The following are excerpts from the AOR Designation Letters reviewed:

May 21, 2012, August 28, 2012, and October 29, 2012, Designation Letters

Monitoring - You are responsible for monitoring the recipient's progress in achieving the objectives of the Program Description in the subject award and for verifying that the recipient's activities being funded by USAID under the referenced award conform to the terms and conditions of that award. If this award is for \$300,000 or more to a non-U.S. organization, this includes the requirement that the recipient obtain an annual audit.

February 4, 2015, and June 24, 2015, Designation Letters

Monitoring - You are responsible for monitoring the recipient's progress in achieving the objectives of the Program Description in the subject award and for verifying that the recipient's activities being funded by USAID under the referenced award conform to the terms and conditions of that award. For example, U.S. organization recipients that expend \$500,000 or more in Federal funds during a fiscal year must obtain a single or program-specific audit conducted for that year in accordance with OMB Circular A-133. Non-U.S. organization recipients that expend more than \$300,000 or more in Federal funds during a fiscal year must also obtain an annual audit in accordance with ADS 591, Financial Audits of USAID Contractors, Recipients, and Host Government, section 591.3.2.1.

February 2, 2016, Designation Letter

Tracking performance results - You are responsible for tracking the recipient's progress in achieving the objectives of the trust fund, particularly in the areas and programs in which USAID has stated a preference for our funding. This includes reviewing progress reports and other technical materials, attending various technical and committee meetings, and reviewing the trust fund's third party monitoring reports. You are also responsible for tracking and reviewing the communication between USAID technical personnel and trust fund personnel towards achieving the milestones and goals of the trust fund and their programs in which USAID has stated a preference for our funding.

APPENDIX D. AGENCY COMMENTS



MEMORANDUM

July 14, 2017

TO: Thomas E. Yatsco, OIG/Assistant Inspector General for Audit

FROM: William Hammink, OAPA/Assistant to the Administrator /s/

SUBJECT: USAID’s Response to OIG Draft Report titled “USAID Planning and Monitoring Gaps Weaken Accountability for Results through the Afghanistan Reconstruction Trust Fund”
(Report No. 8-306-17-00X-P)

REF: TYatsco/WHammink/HSmith memo dated June 7, 2017

Thank you for providing USAID with the opportunity to respond to the OIG draft report titled “USAID Planning and Monitoring Gaps Weaken Accountability for Results through the Afghanistan Reconstruction Trust Fund” (Report No. 8-306-17-00X-P) dated June 7, 2017.

The Afghanistan Reconstruction Trust Fund (ARTF) is a World Bank (WB) administered multi-donor trust fund and the main pillar of multilateral on-budget support to the Government of Afghanistan. The ARTF’s goal is to support the Afghan Government’s efforts to deliver essential services, support the development of Afghanistan, and bolster the government’s fiscal sustainability. The ARTF also serves as a key coordination and policy dialogue mechanism between the Afghan Government and 34 donors that provide assistance to Afghanistan, allowing donors to work together to achieve shared goals and avoid duplication. Through the ARTF, USAID has been able to achieve development results that contribute to reducing poverty and enhancing the living standards of the people of Afghanistan. USAID’s contributions to the Fund have promoted and advanced gains in women’s empowerment, education, health, agriculture,

infrastructure, governance, public financial management, key government reforms, and rural development objectives for Afghanistan in close coordination with partner countries.

USAID's participation in the ARTF, through a public international organization (PIO) contribution grant to the World Bank, is one approach the U.S. Government uses to finance the reconstruction of Afghanistan, advance development programs, and enhance public financial management.

USAID's contributions to the World Bank ARTF represent a new level of partnership with a public international organization (PIO) for the Agency and we continue to learn lessons and to enhance our monitoring and oversight efforts to ensure ARTF projects are achieving their goals. Our response below highlights many of these efforts. Projects implemented through the ARTF encourage the conditions needed to stimulate private-sector growth; intends to improve efficiency, accountability and transparency of public spending, and leverages U.S. Government commitments to help preserve peace, promote stability, and reduce the potential for terrorism.

USAID Responses to OIG'S Recommendations

***Recommendation 1.** Establish procedures to enhance verification of conditions and promote safeguards for USAID funds disbursed through the ad hoc payments mechanism.*

USAID Response: USAID concurs with recommendation 1.

Actions Taken/Planned: USAID contributions to the ARTF Recurrent Cost Window/Ad-Hoc Payment (RCW/AHP) program follow policy requirements.

USAID makes AHP disbursements through the RCW, and contributions made to the RCW, including those under the AHP mechanism, follow strict fiduciary controls employed by the ARTF through a World Bank-contracted third-party Monitoring Agent, comprised of professional auditors who review and check withdrawal applications (reimbursing requests) received from the Afghan Ministry of Finance. The Monitoring Agent only reimburses the Government for eligible

expenditures.¹ These fiduciary controls employed by the ARTF permit USAID to make contributions to the AHP in an effective and accountable way.

The AHP allows USAID the flexibility of utilizing the on-budget support of ARTF to encourage specific results, and the majority of the disbursements using the AHP are under the New Development Partnership. The New Development Partnership is an innovative incentive program that requires the Government of Afghanistan to achieve results through mutually agreed upon reforms as determined by indicators verified by USAID prior to any release of funds. Once results are achieved, USAID contributions to the RCW/AHP are disbursed.

Moving forward, when appropriate for certain AHP arrangements that are not predicated on meeting conditions prior to disbursement, USAID will monitor contributions to the AHP mechanism through a USAID-contracted third-party monitoring (TPM) firm. This stipulation has been included in implementing letters countersigned by the Government of Afghanistan. USAID/Afghanistan's revised Project Design Mission Order will include standard operating procedures to guide staff on the use of ARTF, including the AHP. USAID developed draft guidance for Mission staff on sub-obligation of funds to the AHP. When sub-obligating funds through AHP, in addition to all the statutory and policy requirements, the technical offices must make arrangements for monitoring the implementation of the investment of the specific agreement/project for which AHP is used (*see Attachment 1*).

All contributions made to the AHP are aligned with the Afghan Government's priorities, and disbursements are subject to fiduciary controls by the World Bank. Further, USAID's commitment to use third-party monitoring for specific the ad-hoc payments ensures enhanced verification for these funds.

Closure Request: As the current process complies with policy requirements, and USAID continuously verifies that there are safeguards in place and effective monitoring of contributions, it therefore requests OIG's concurrence with the closure of the recommendation upon issuance of the final audit report.

¹ Eligible Expenditures Definition as stated in Amendment 19 of the TF Grant Agreement: "(a) the term 'Recurrent Expenditures' means those recurrent expenditures set forth in the Recipient's budget, whose eligibility for financing hereunder shall have been determined by the Management Committee, relating to wages, benefits, and other payments for civil servants; pensions payments; fuel costs; debt service obligations, including the payment of interest, fees and other charges; operation and maintenance costs for government buildings in Kabul and the provinces, and rehabilitation of eligible district government buildings, but excluding military and paramilitary expenditures and police-related expenditures."

Recommendation 2. *Appoint an expert panel to examine Agency planning requirements and formally document proposals to Agency senior leadership on how those requirements should be revised to reflect the unique constraints posed by operating in Afghanistan.*

USAID Response: USAID concurs with recommendation 2.

Actions Taken/Planned: The understanding of the recommendation by USAID Bureau's for Policy, Planning and Learning (PPL) derives from the discussion on Page 8 of the OIG report: "The Agency has numerous current and former officials with significant experience in non-permissive environments who could work on an expert panel to develop new guidance." As noted in the report, the recent revision of ADS 201 already provides all Missions with the ability to customize Program Cycle processes, including project and activity planning, to their context. However, our response herein also considers the emphasis on issues of program monitoring presented in the report.

USAID is committed to measuring and assessing to progress of projects we fund everywhere in the world, no matter the conditions of the host country. PPL -- in conjunction with the Office of Security (SEC) and the Office of Human Capital and Talent Management (HCTM) -- has taken concrete steps to address the unique challenges presented by non-permissive environments (NPEs). Recognizing that USAID works in a number of countries and regions characterized by insecurity, inaccessibility, and uncertainty, the Agency has developed a framework that lays a blueprint for building USAID's operational capabilities and resilience in NPEs, including Afghanistan. The framework's broad goal is to strengthen the ability of USAID Missions and staff to understand and assess the impact of non-permissive conditions (*e.g.*, insecurity, instability, inaccessibility) on Mission operations and programs, and to increase staff access to and adoption of a wide range of tools and resources that can improve our overall effectiveness in NPEs. On March 28, 2017, the Administrator's Leadership Council approved the NPE Strategic Framework and Action Plan (*see Attachments 2 and 3*). The Administrator's Leadership Council Meeting Notes are provided to support the approval of the NPE Strategic Framework (*see Attachment 4*).

The NPE Action Plan establishes NPE working groups focused on building Agency capacity, and developing and sharing resources in areas such as monitoring, evaluation, and learning (MEL); adaptive procurement; and training. These working groups bring together highly experienced USAID staff from a range

of offices and Bureaus with considerable experience working in NPE environments. To strengthen programming in difficult operating environments, the NPE Action Plan envisions building the capacity of Missions and implementing partners to apply adaptive management, agile monitoring and evaluation, and flexible procurement practices. For example, the NPE MEL Working Group is focused on developing and disseminating MEL tools and approaches, such as remote monitoring, tiered monitoring, and evaluation in complex situations, that Missions in a wide range of non-permissive contexts with different characteristics can apply. The Agency will monitor the implementation of the NPE Action Plan to ensure field staff and implementing partners in Afghanistan understand the flexibilities afforded them and their responsibilities for monitoring and evaluation.

Closure Request: As the Agency has fully implemented the recommendation, USAID requests OIG's concurrence with its closure upon issuance of the final audit report.

***Recommendation 3.** Establish policies and procedures to document satisfactory performance by Afghanistan Reconstruction Trust Fund investment window projects before preferencing any additional contributions; the basis and rationale for preferencing any additional contributions; and analysis that additional preferenced contributions for pipeline drawdown represent the best use of U.S. Government funds.*

USAID Response: USAID concurs with recommendation 3.

Actions Taken/Planned: In late 2016, USAID developed draft guidance for Mission staff for obligating funds to the ARTF Investment Window (IW) projects. The purpose of the guidance is to inform sub-obligations by project managers and staff to the ARTF/IW projects, and to advise Mission staff on key steps they need to consider before obligating funds through any instrument. One key aspect of this guidance is to determine satisfactory performance of IW projects before preferencing any USAID contributions. The Agency has finalized this guidance, which will be incorporated into the Project Design Mission Order once cleared by different offices and, finally, the Mission Director (*see Attachment 1*). USAID estimates releasing the Project Design Mission Order by September 30, 2017. Hence, we have set the target closure date for this recommendation for this date.

Additionally, USAID periodically convenes meetings with the Investment Window Activity Managers (AMs) (Mission staff designated to monitor USAID

contributions to ARTF/IW activities), the Agreement Officer Representative (AOR), and the Agreement Officer (AO), to ensure the effective management of USAID's contributions and preferenced funds (*see Attachments 5, 6, 7, 8, and 9*). These meetings provide an opportunity for AMs to discuss performance issues and request that they be raised with senior management for corrective measures.

For example, in 2016 the Agency raised implementation issues with the System Enhancement for Health Action in Transition (SEHAT) activity with the ARTF AOR and elevated to Mission and World Bank senior leadership. The Mission can confirm that the OIG's concern regarding communication from Mission staff to the AOR about problems related to SEHAT is fully rectified, and the overall concerns are being addressed.

In 2016, USAID began conducting a financial analysis (including pipeline analysis) that measures the disbursement rate of each IW project in the ARTF Fund, and the analysis now provides a basis for USAID to determine whether there is a need for additional contributions to IW activities (*see Attachment 10*).

Target Closure Date: September 30, 2017.

Recommendation 4. *Develop guidance on how to consistently attribute the results of Afghanistan Reconstruction Trust Fund activities to all USAID contributions.*

USAID Response: USAID concurs with recommendation 4.

Actions Taken/Planned: USAID is one of multiple donors that contribute to ARTF investment window programming. When the World Bank reports on ARTF results, it does so in terms of the aggregate results achieved under each program. The nature of this funding model and approach makes it difficult to disaggregate results by donor. While USAID can estimate its portion of overall investment window programming, unless USAID is the sole donor it would be misleading to only attribute USAID funding to particular results, since these results are the product of joint investments by many donors.

Going forward, USAID/Afghanistan proposes reporting on aggregate performance results achieved under each investment window program it supports, as this is the information the World Bank provides. However, the Mission will make it clear that it is one donor that contributes to these results, and, when possible, will provide an estimate of its funding as a percent of all donor funding destined for a

particular program. The Mission will develop supplemental ARTF reporting guidance for the FY 2017 Performance Plan and Report, and for Afghan Info reporting, to ensure the Agency is tracking ARTF results consistently for external reporting purposes across all sectors.

Target Closure Date: December 31, 2017

***Recommendation 5.** Include the Afghanistan Reconstruction Trust Fund in the mission's performance management plan.*

USAID Response: The Mission concurs with recommendation 5.

Actions Taken/Planned: The Performance Management Plan (PMP) documents how USAID/Afghanistan will track its development objectives over the course of the strategy. Investment window programming, such as System Enhancement for Health Action in Transition (SEHAT) and Education Quality Improvement Program II (EQUIP II), contribute to achieving USAID/Afghanistan's development objectives (DOs) in areas such as health and education, respectively. Recurrent-cost-window programming broadly contributes to the overarching Mission goal of "Afghan-led sustainable development." Further, custom and standard indicators for ARTF investment window programming are included and monitored in the Performance Plan and Report (PPR), which allows the Mission to track progress of efforts against specified targets that contribute to DOs.

As a PMP is not a strategy document, but rather serves to detail how to measure the results in the strategy, the most appropriate way to incorporate ARTF into the Mission's PMP is through the inclusion of relevant performance indicators. The Mission is in the process of revising its PMP, with an estimated completion date of September 2017. Within the revised PMP, the Mission will make it clear how the investment-window and recurrent-cost-window programming that the Mission supports align with USAID/Afghanistan's strategic results, as well as the relevant indicators used to measure those results.

Target Closure Date: September 30, 2017.

***Recommendation 6.** Include the Afghanistan Reconstruction Trust Fund performance results in the annual performance plans and reports.*

USAID Comments: The Mission concurs with recommendation 6.

Actions Taken/Planned: ARTF investment window performance results already appear in the performance data reported in the annual PPR. Going forward, the Mission will continue to include these results in the PPR to the extent they meet minimum PPR reporting requirements (*e.g.*, the Mission is able to confirm that data quality assessments have been undertaken for the indicators, the availability of performance targets for the next Fiscal Year, etc.). Beginning in the Fiscal Year 2017 PPR, the Mission will also make it clearer in the Mission Objective and Indicator Performance Narratives which of the reported results are from ARTF investments.

Target Closure Date: December 31, 2017.

Recommendation 7. *Establish a monitoring and evaluation plan that encompasses all Afghanistan Reconstruction Trust Fund contributions.*

USAID Response: USAID does not concur with recommendation 7.

Actions Taken/Planned: The World Bank has the contractual obligation to ensure sound monitoring and evaluation for ARTF programming. To achieve this, the World Bank provides monitoring frameworks and performance results tracking for investment window programs. Given the diversity in investment window programming, monitoring and evaluation plans specific to each activity are more appropriate to track. Similarly, this also reflects how the Mission in Kabul manages ARTF investment-window programs, and relevant technical offices are closely engaged on the activities relevant for their respective technical sectors.

The Mission has also designated an ARTF monitoring and evaluation backstop in the program office that works with technical offices on issues related to ARTF and the reporting of performance results. This will allow for more consistency in the monitoring and evaluation of ARTF programming across the Mission, while recognizing that the monitoring and evaluation is handled differently for multi-donor trust fund arrangements.

The Agency will undertake a review of ADS Chapter 308 with respect to monitoring and evaluation of PIOs. Since early 2016, the Mission Order on performance monitoring has included the requirements for AORs of PIO grants like ARTF, based on the policies found in Chapter 308 of the Automated Directive

System (ADS) and the USAID/Afghanistan Mission's monitoring and evaluation approach. These include the requirements to use monitoring tools for these awards and update performance indicator information in Afghan Info. Any changes to ADS 308 will be reflected in a revised performance monitoring Mission Order, as appropriate.

Finally, the USAID/Afghanistan AOR designation letter template reflects the requirements of the Mission Order on performance monitoring (*see an example letter in Attachment 11*).

Closure Request: Based on the above, USAID requests withdrawal of recommendation 7 from the final audit report.

Recommendation 8. *Issue a mission notice informing all personnel of the evaluation rights contained in paragraph 11(b) of the Amended and Restated Standard Provisions of the Afghanistan Reconstruction Trust Fund, and establishing procedures to increase awareness of this provision during the handover process for all Afghanistan Reconstruction Trust Fund agreement officers, agreement officer's representatives, and activity managers.*

USAID Response: The Mission concurs with recommendation 8.

Actions Taken/Planned: AORs and Activity Managers are required to be familiar with the provisions of the ARTF agreement, including paragraph 11(b), of the amended and restated standard provisions, as part of their functional duties. The new Standard Operating Procedures and the evaluation procedures documented in the recently revised Mission Order 201.04 on Evaluation, clarify when it is appropriate to consider evaluations for USAID activities (*see Attachment 12*).

Closure Request: Based on the above, no further action is deemed necessary, as the Agency is carrying out the recommendation and USAID requests OIG's concurrence with its closure upon issuance of the final audit report.

Recommendation 9. *Conduct a formal evaluation of an Afghanistan Reconstruction Trust Fund activity or activities funded by USAID and disseminate lessons learned from this effort across the Agency.*

USAID Response: The Mission concurs with recommendation 9.

Actions Taken/Planned: The Office of Program and Project Design will ascertain what type of evaluation is most appropriate for the ARTF, and will begin the process for commissioning one in the near future. As described in paragraph 11(b) of the Amended and Restated Standard Provisions of the ARTF, USAID understands that it has the right to evaluate activities financed by the Fund, so long as the Agency and the World Bank agree on the scope and conduct of such review or evaluation. USAID will use the results from such an evaluation, to inform future contributions and preferencing.

Target Closure Date: September 30, 2018

***Recommendation 10.** Develop policies and procedures to conduct periodic spot checks of agreement officer's representatives' files, disseminate lessons learned to the mission, and incorporate the results of these spot checks into performance reviews.*

USAID Response: The Mission concurs with recommendation 10.

Actions Taken/Planned: OAA has the authority to conduct spot checks of AOR files; and does so. The Mission shares broadly any issues that are of interest or concern among the key stakeholders and takes appropriate action. The Agency incorporates lessons learned specific to AOR duties into Mission training opportunities. The AOR's respective managers determine performance reviews, taking into account the position description, title and assigned duties, including AOR/COR duties.

In addition, USAID/Afghanistan has in place a Mission Order on Records Management No. 502.02 (*see Attachment 13*) revised in October 2016, which describes procedures and policies for the maintenance and disposition of records at the Mission in Kabul. Furthermore, the current AOR has established an electronic "tasker tracker" to document every meeting held as it pertains to the management of the ARTF and any tasker that derived from carrying out the duties and responsibilities associated with project-management of the ARTF.

Also, as part of their overall procurement systems reviews, The OAA Evaluation Division in Washington conducts spot checks of AOR/COR files for the Mission whenever a formal evaluation of the Mission OAA office is conducted. In fact, The

OAA Evaluation Division conducted such a spot check at USAID/Afghanistan in May 2017.

Closure Request: Based on the above, no further action is deemed necessary, as the Agency is implementing the recommendation and USAID requests OIG's concurrence with its closure upon issuance of the final audit report.

Recommendation 11. *Require regularly scheduled and documented meetings among the Afghanistan Reconstruction Trust Fund agreement officer, agreement officer's representative, and activity managers to exchange information, and require follow-up on any outstanding items.*

USAID Response: The Mission concurs with recommendation 11.

Actions Taken/Planned: Beginning in August 2016, USAID/Afghanistan held monthly meetings with Activity Managers (*see Attachments 5, 6, 7, 8, and 9*). Going forward, USAID will hold quarterly meetings with Activity Managers, as some ARTF activities are coming to an end in 2017/2018; the AOR also continues to monitor implementation of activities through regular meetings with the World Bank, through the ARTF Strategy Group, and on an ad-hoc basis with donor partners. Additionally, USAID will hold regular ARTF/IW Technical Reviews with the World Bank's management. The first Technical Review took place on January 29, 2017, on ARTF's System Enhancing for Health Actions in Transition (SEHAT) Project (*see Attachment 14*). The AOR will include the Agreement Officer in all regularly scheduled meetings.

Target Closure Date: Based on the above, no further action is deemed necessary, as the Agency is carrying out the recommendation and USAID requests OIG's concurrence with its closure upon issuance of the final audit report.

The technical comments to OIG draft audit report appears in Annex A to this memorandum.

Annex A – Technical Comments

Attachments:

- Attachment 1 - Final Draft Guidance;
- Attachment 2 - Final NPE Operational Framework;
- Attachment 3 - NPE Framework Action Plan;

Attachment 4 - 2017-03-28 Administrator's Leadership Council Meeting Notes;
Attachment 5 - IW Activity Managers Meeting Minutes, October 2016;
Attachment 6 - IW Activity Managers Meeting Minutes, November 2016;
Attachment 7 - IW Activity Managers Meeting Minutes, January 2017;
Attachment 8 - Memo to File on Investment Window Meeting, August 2016;
Attachment 9 - Memo to File on Investment Window Meeting, September 2016;
Attachment 10 - Financial Analysis, ARTF Investment Window, March 2017;
Attachment 11 – AOR Designation Letter, ARTF;
Attachment 12 – Mission Order 201.04 on Evaluation;
Attachment 13 – Mission Order 502.01 on Records Management;
Attachment 14 - Meeting between USAID and the World Bank, January 2017.

Cc: OAPA Afghanistan Audit