



Office of Inspector General

October 12, 2012

MEMORANDUM

TO: USAID/Afghanistan Mission Director, S. Ken Yamashita

FROM: Supervisory Auditor, Nathan Lokos /s/

SUBJECT: USAID/Afghanistan's Performance Based Governors' Fund
(No. F-306-13-001-S)

This memorandum is being reissued on February 12, 2013 to incorporate management's comments.

As previously discussed with representatives of the mission's democracy and governance team, OIG/Afghanistan will not complete its audit of the Performance Based Governors' Fund (PBGF). However, in the course of planning the audit, the assigned audit team identified eight concerns related to the program that merit your attention and follow-up.

To assist you, we have grouped the concerns into three categories below. Additionally, to improve the performance of the program, we are providing suggested actions to address each concern. Please note that the actions proposed are not formal audit recommendations. Your responses are summarized on page 5 and are included in full starting on page 7.

Program Performance Management

1. **Performance targets and baselines omitted.** Performance indicator targets and baselines are essential components of a complete performance monitoring plan. Target and baseline values are critical both for understanding the level of performance before the implementation of USAID-supported projects and for determining whether the planned result was achieved within a specified timeframe. However, the PBGF's plan contains no baseline values and only one target value for its 103 performance indicators. Only one of USAID/Afghanistan's four strategic objective indicators had a target; none of the 16 PBGF expected results indicators had associated targets; and none of the 83 associated indicators and subindicators in the program's performance evaluation scoring matrix had targets. The one

target included is to provide every Afghan province with “USG [U.S. Government] Assistance.” The absence of performance baselines and targets precludes a meaningful assessment of program performance and success.

- *Suggested action.* The Asia Foundation and the democracy and governance team should identify Performance Based Governors’ Fund’s performance targets and baselines for all the indicators to be included in the program’s revised performance monitoring plan.
2. ***Performance indicators too numerous to be useful.*** A performance management plan should have as many indicators as are necessary and cost-effective for results management and reporting purposes. In most cases, two or three indicators per result should be sufficient to assess performance. Although they are not all labeled as “performance indicators,” the PBGF’s performance management plan contains more than 100 performance indicators, many of which require the collection of data for each of the 34 Afghan provinces. This appears to be an excessive and unwieldy amount of data to collect.
 - *Suggested action.* The Asia Foundation and the democracy and governance team should reduce the number of performance indicators for the Performance Based Governors’ Fund to a number that is necessary, cost-effective, and sufficient to assess performance.
 3. ***Performance management plan not updated.*** Performance monitoring plans should be updated regularly, and such updates are usually performed annually. However, the PBGF’s plan has not been updated to reflect the reduction in the number of performance indicators used or the modifications made to the indicators. For example, during the pilot phase of the program, the number of performance indicators in the performance evaluation scoring matrix was reduced from 30 to 20. Additionally, the mission’s 2011 portfolio review prompted significant changes to strategic objective indicators. The plan itself states that changes to the program’s indicators would likely occur, but the plan was not modified. This circumstance raises questions about what role the plan served and whether it was used as a performance management tool.
 - *Suggested action.* In collaboration with the Asia Foundation, the democracy and governance team should update the performance management plan.
 4. ***Intended results not clear or universally understood.*** A principal step in performance management is establishing a performance management framework, which identifies the hierarchy of results that a program is intended to achieve. However, program documents and assertions made by key program officials do not consistently articulate the intended results of the PBGF. For example, the cooperative agreement asserts that the program will provide provincial governors with assistance “so that they are better able to meet community outreach needs, enhance their relationships with citizens, and improve their overall management capacity.” A key program official noted, “The main objective of PBGF is to better position the sub-national level to access the central level funding.” An implementing partner official wrote that the program’s goal is to strengthen Afghan sub-national governance by providing capacity building and financial support to “Provincial Governors’ Offices and Provincial Councils, as well as . . . the Independent Directorate of Local Governance.” These and other examples prompted concern and questions about the focus

and desired results of the program, which the audit team was not able to resolve. If the program's intended results are not clear, program success is unlikely.

- *Suggested action.* The Asia Foundation and the democracy and governance team should review, revise and clarify (if necessary), and communicate the intended results of the Performance Based Governors' Fund so that all parties involved in the program have a clear and consistent understanding of them.

Financial Matters

5. **Charges not for actual costs.** Costs charged to an award should equal costs incurred. During the pilot phase of the program, the Asia Foundation reported that it had disbursed \$9,188,518 to provincial governors, 90 percent of the estimated disbursement amount. However, an Asia Foundation financial report prepared and submitted to USAID/Afghanistan revealed that the foundation charged the entire estimated cost of the program without taking into account the undisbursed funds of \$1,020,000. This disparity suggests that disbursement costs charged may be for budgeted amounts instead of actual costs and therefore would be unallowed.

- *Suggested action.* USAID/Afghanistan should verify that amounts charged under the Performance Based Governors' Fund for disbursements to Afghan provincial governors during the pilot phase reflect actual costs.

6. **Spending mainly for vehicles and equipment.** According to PBGF's cooperative agreement, the purpose of the program is to provide interim assistance to governors so they are better able to meet operational and community outreach needs, enhance their relationships with citizens, and improve their overall management capacity. Consistent with the program's purpose, one might expect a balanced level of spending on operational resources, community outreach, and capacity building. However, spending on vehicles and equipment reached an average of 51 percent of total program funds disbursed; spending on community outreach averaged 18 percent; and spending on capacity building averaged 5 percent of total spending. Although expenditures in one category may advance goals in other categories—for example, equipment may support community outreach—spending on vehicles seems excessive in relation to spending for improving management capacity and community outreach.

- *Suggested action.* USAID/Afghanistan should more closely review the nature of expenditures to ensure that program purposes are achieved.

General Award Management

7. **Database reporting not done.** PBGF's cooperative agreement, Section A.10.1, "Database Reporting," requires the Asia Foundation to provide program information quarterly to USAID/Afghanistan's management information system, Afghan Info. However, at the time of our work, the only data reported in the database on PBGF was for the first quarter of fiscal year 2011. The purpose of the database is to track and monitor development projects and maintain coordination among USAID/Afghanistan, USAID/Washington, Congress, the International Security Assistance Force, implementing partners, the Government of Afghanistan, and other donors. Not entering required information in the database defeats this purpose.

- *Suggested action.* USAID/Afghanistan should resolve issues preventing the Asia Foundation from updating the Afghan Info system with Performance Based Governors' Fund data and prompt the input of data to bring the system up-to-date.
8. ***Performance management plan not approved.*** PBGF's cooperative agreement, Section A.9, "Substantial involvement," asserts that it is the responsibility of the agreement officer's representative to review and provide approval of the monitoring and evaluation plan. When asked to prove that the plan had been approved, the implementer provided evidence that a previous agreement officer's representative had reviewed and edited the plan, but neither the implementer nor USAID/Afghanistan staff provided documentation that the plan had been approved. Given the problems outlined above with the performance management plan, mission management missed an opportunity to improve management of the program.
- *Suggested action.* The agreement officer's representative should review and approve the performance management plan.

Please contact me if you have any questions about the content of this memorandum. Thank you for the excellent support provided to my team.

SUMMARY OF MANAGEMENT COMMENTS

In response to our memorandum, USAID/Afghanistan agreed with suggested actions 1, 3, 4, 6, 7 and 8. The mission disagreed with suggested actions 2 and 5. Mission comments are summarized below.

Program Performance Management

Suggested action 1. The mission agreed to include baselines and targets for its PBGF Phase II performance management plan with an expected completion date of June 6, 2012.

Suggested action 2. The mission did not agree that it should reduce the number of performance indicators for the Performance Based Governors' Fund, claiming that the 103 indicators were not part of its performance management plan and that this plan only listed 20. Moreover, the mission stated that for PBGF Phase II, these 20 are currently being revised and updated. The mission did not provide a target date for completion.

We do not agree with the mission's contention that the performance management plan only contains 20 performance indicators. The 20 indicators referred to by the mission are characterized in the performance management plan as "key USAID indicators" and "PBGF expected results and indicators". However, the performance management plan also notes that PBGF has developed a performance scoring system, including indicators, to measure gubernatorial performance. We included these in our count of 103 performance indicators.

Suggested action 3. The mission agreed and is currently working with The Asia Foundation to develop a PBGF Phase II performance management plan with an expected completion date of June 6, 2012.

Suggested action 4. The mission agreed and is working with The Asia Foundation to develop a clear hierarchy of overarching goals with supporting results to be included in the updated Phase II performance management plan with an expected completion date of June 6, 2012.

Financial Matters

Suggested action 5. The mission disagreed, claiming that it was satisfied that costs charged represented actual costs. Nevertheless, the mission included an audit of the PBGF award in its FY 2012 Audit Management Plan, with an expected completion date to be determined pending audit firm availability.

Suggested action 6. The mission agreed, noting that it had already implemented mechanisms resulting in more funds allocated to community outreach needs, and that vehicle expenditures would no longer be allowable costs under PBGF II. They also stated that no further action would be necessary to address the suggestion.

General Award Management

Suggested action 7. The mission agreed, claiming that since the Afghan Information system is now web-based, accessibility problems have been solved. They also stated

that past indicator data was being uploaded and that no further action would be necessary to address the suggestion.

Suggested action 8. The mission agreed, and stated that they were updating the performance management plan and approvals would be documented. The expected completion date was June 6, 2012.

MANAGEMENT COMMENTS

UNCLASSIFIED **INFORMATION MEMORANDUM**

May 21, 2012

TO: George Buzby, Assistant Director/Auditor,
Inspections and Evaluations Division,
Office of Audit, OIG

THROUGH: David Thompson, Acting Deputy Mission Director /s/

FROM: Elizabeth Ramirez, Senior Governance Advisor, ODG

SUBJECT: Audit of USAID/Afghanistan's Performance Based Governor's
Fund's (PBGF) Phase I Implementation (November 2009-
October 2010)

REFERENCE: OIG Task No. FF100312

ODG appreciates OIG's efforts in initiating the PBGF audit and informing us accordingly of its preliminary observations. ODG has reviewed OIG's draft memorandum which was shared with ODG on May 18, 2012, and has prepared the below comments for consideration by OIG as it finalizes its summary memorandum.

Although USAID/Afghanistan will not be required to respond formally to OIG's memo, ODG deems it important to share its comments on the issues identified and inform OIG of its planned actions or actions already taken to address OIG's suggestions.

Issues Identified and Suggested Actions

Program Performance Management:

- *PBGF's Performance Management Plan (PMP) did not include baselines or targets.*

OIG's Suggested Action: The Asia Foundation and the Assistance Objective Team should identify Performance Based Governors' Fund's performance targets and baselines for all of the indicators, to be included in the program's revised performance management plan.

ODG Response: The PMP for PBGF's first phase (page 8, section 4.3) states "In the context of PBGF Program, a specific baseline assessment linked with the objective is not very much relevant because this is a performance based fund. Until funds are utilized, the performance in the contexts of the program cannot be measured very well." As such, the baseline figures were not established.

Action Taken: The AOR is working with The Asia Foundation to finalize the PBGF Phase II PMP, which will include appropriate baselines and targets.

Target completion date: 06/06/2012

- *PBGF's PMP had too many indicators.*

OIG's Suggested Action: The Asia Foundation and the Assistance Objective Team should reduce the number of performance indicators used for Performance Based Governors' Fund to a number that is necessary, cost effective, and sufficient to assess performance for program results.

ODG Response: The PMP for PBGF (tables 4.1a and 4.1b on pages 12-13) lists 20 performance indicators. These are being revised and updated for PBGF II. The 103 indicators mentioned in the OIG report is not part of the program's PMP, but rather part of the program evaluation matrix used to rank Provincial Governor's Offices (PGOs). Originally, that matrix had 76 indicators, and this was simplified to 20 indicators in January 2011.

Based on the above clarification, ODG deems that the issue should not be included in the memo.

- *PBGF's PMP had not been updated.*

OIG's Suggested Action: In collaboration with The Asia Foundation, the Assistance Objective Team should update the Performance Management Plan.

ODG Response: A draft PMP was included in the PBGF Phase II application, which was submitted in October 2011; however, it was not finalized due to uncertainties surrounding DFID's cost share. While DFID

still hasn't determined the amount of its cost share, as of April 2012 it is certain that PBGF II will no longer support a Provincial Council fund or Financial Management Systems pilot.

Action Taken: The AOR is currently working with The Asia Foundation to develop a new PMP that reflects the Mission's updated 2011 democracy and governance indicators.

Target Completion Date: 06/06/2012

- *PBGF program results should be clear and universally understood.*

OIG's Suggested Action: The Asia Foundation and the Assistance Objective Team should review, revise and clarify (if necessary), and communicate the intended results of the Performance Based Governors' Fund, so that all parties involved in the program have a clear and consistent understanding of them.

ODG Response: ODG is working with The Asia Foundation to develop a clear hierarchy of overarching goals with supporting results. These will be clearly laid out in the updated PMP for PBGF II.

Target Completion Date: 06/06/2012

Financial Management:

- *Costs charged may represent budgeted amounts, not actual costs.*

OIG's Suggested Action: USAID/Afghanistan should verify amounts charged under the Performance Based Governors' Fund Program for disbursements to Afghan provincial governors during the pilot phase reflect actual costs.

ODG Response: The PBGF cooperative agreement was modified several times to revise and re-align the program budget, especially with reference to Modification Nos. 2, 4, and 7 where budgeted costs were re-allocated between budget lines. USAID consulted extensively with The Asia Foundation to ensure funds were allocated so as to prevent the program from shutting down during the prolonged period in between PBGF's first and

second phases. USAID also added funds to prevent the project from closing. In particular, Modification No. 4 realigned the budget based on the changing operational and funding circumstances that were impacting quite heavily on the program. As such, ODG is satisfied that the costs charged indeed represent actual costs.

Planned Action: In line with the Mission's A3 audit program, an audit of the PBGF award is already included in the FY 2012 Audit Management Plan.

Target Completion Date: TBD as audit firms become available

- *Most of Provincial Governor Offices' (PGO) spending in PBGF's first phase was on vehicles and equipment.*

OIG's Suggested Action: USAID/Afghanistan should more closely review the nature of expenditures to ensure that program purposes are achieved.

ODG Response: PBGF seeks to develop sub-national financial management capacity, devolve budgeting planning and execution responsibilities to PGOs. As such, the Governor and his/her office have authority over what is included within their monthly PBGF budget, provided that it falls within the approved cost categories.

Actions Taken: PBGF has instituted evaluation mechanisms such as the ranking mechanism, to reconcile the often conflicting priorities among PGOs and donors and reward emphasis on community outreach and capacity building. The program has many examples of PGOs responding positively to this incentive structure. It should be noted that , in PBGF's second phase, the program has noted a significant reduction in the proportion of funds spent on equipment and an increase in funds allocated for community outreach. In addition, vehicle expenditures are no longer allowable costs under PBGF II.

ODG deems that the above actions adequately address the issue and that no further action is necessary.

General Award Management:

- *Database reporting was not performed.*

OIG's Suggested Action: Resolve issues preventing The Asia Foundation from updating the Afghan Info system with Performance Governors' Fund data and prompt the input of data to bring the system up to date.

ODG Response: Since Afghan Info is now web-based, the issue of accessibility has been resolved. The AOR is currently working with The Asia Foundation to ensure that past indicator data is uploaded to Afghan Info and data is kept up to date. ODG believes that no further action is necessary.

- *PMP was not approved.*

OIG's Suggested Action: The Agreement Officer's Representative should review and approve the performance management plan.

ODG Response: The AOR is working with The Asia Foundation to update the PMP and will clearly document future approvals.

Target Completion Date: 06/06/2012

cc: Robbin Burkhart, Controller
Mike Ashkouri, Deputy Director, OAA
Chris Egaas, Contracts Mgt. Team, OAA
Tanya Nunn, RLO
Tom Cornell, OPPD
Nate Lokos, Director, OIG Afghanistan