



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S SUPPORT TO THE AMERICAN UNIVERSITY OF AFGHANISTAN

AUDIT REPORT NO. 5-306-11-002-P
NOVEMBER 5, 2010

MANILA, PHILIPPINES



Office of Inspector General

November 5, 2010

MEMORANDUM

TO: USAID/Afghanistan Director, Earl W. Gast

FROM: Regional Inspector General/Manila, Bruce N. Boyer /s/

SUBJECT: Audit of USAID/Afghanistan's Support to the American University of Afghanistan (Audit Report No. 5-306-11-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and included the comments in their entirety in Appendix II.

This report contains 18 recommendations to assist the mission in improving certain aspects of its support to the American University of Afghanistan. On the basis of the information provided by the mission in response to the draft report, we determined that final action has been achieved on Recommendations 4, 16, and 18. A management decision has been reached on the other 15 recommendations. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions addressing these 15 recommendations.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

The American University of Afghanistan (AUAf) was officially chartered under the Afghan Constitution and Civil Code in July 2004 as a private institution of higher education. The university's mission is to provide a high-quality education that meets international standards and emphasizes a liberal arts curriculum and higher education for the professions. AUAf follows an American model of higher education with regard to the structure of its academic programs, their content, and the pedagogical¹ approaches of the courses offered. The university's first students enrolled in March 2006 to improve their English-language and study skills in preparation for undergraduate study at the AUAf. In September of that year, the first credit-bearing undergraduate courses and adult professional-level programs were offered.

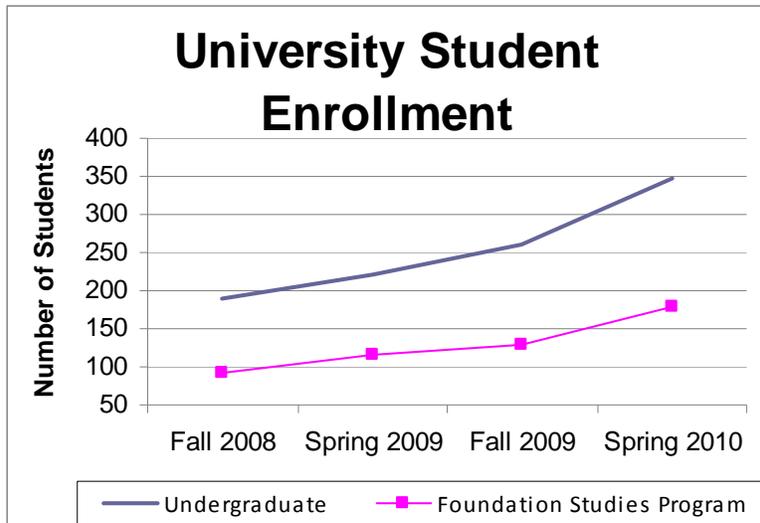
To assist in the development of AUAf, USAID/Afghanistan entered into a \$42 million cooperative agreement with the university in August 2008, effective through July 2013. As of April 30, 2010, USAID/Afghanistan had obligated \$13 million and disbursed \$11 million for agreement activities.

The objective of the audit was to determine whether USAID/Afghanistan's support to the American University of Afghanistan was achieving its main goals of increasing student enrollment; improving the school's infrastructure; increasing the number of qualified staff; reforming the undergraduate curriculum; and enhancing the university's ability to become self-sustaining.

USAID/Afghanistan's support has helped the university make progress toward achieving its main goals of increasing student enrollment and improving the school's infrastructure (though the development of a new campus is behind schedule—see page 9). It has already achieved its goal of increasing the number of qualified staff, thus meeting the end-of-program target. However, AUAf has not made progress in reforming the undergraduate curriculum (see page 11) or enhancing the university's ability to become self-sustaining (see page 8). These issues are discussed in the next four paragraphs.

AUAf is making steady progress toward its goal of enrolling 750 students by the end of the agreement. In its spring 2010 school term, AUAf had 348 students enrolled in its undergraduate program—an increase of 33 percent over the prior term. Since inception of the agreement, undergraduate enrollment has increased each year. AUAf attributes the most recent increase to the use of marketing activities such as television advertising and billboards. AUAf expects to maintain this growth rate for the next 2 years as more advertising mechanisms are used. Further, AUAf is making headway in increasing enrollment in its Foundation Studies Program, which is designed as a preparatory program emphasizing development of English skills with the goal of further increasing enrollment in the undergraduate program. The Foundation Studies Program had 180 students enrolled in the spring 2010 term and is moving closer to its goal of 240 students by the end of the agreement. Student enrollment since inception of the program is displayed in the following graph.

¹ *Pedagogical* – of or pertaining to the art or science of teaching.



In its efforts to improve its infrastructure, AUAf made progress in renovating the existing facilities but is behind schedule in designing and constructing a new campus (see page 9). Completed projects include renovating classrooms, creating additional office space for staff, and carrying out landscaping projects such as adding sidewalks.

In its recruitment of new faculty, AUAf has exceeded its target of having 31 faculty staff members on board by the end of the agreement. The university has 52 full-time teachers on staff or under contract for the fall 2010 term. According to AUAf, given attrition plus some outstanding contracts yet to be signed, they anticipate a faculty of 58 by the fall of 2010.

However, AUAf is behind schedule in reforming its undergraduate program. While the university has developed additional courses and a bachelor’s degree with concentrations in business, information technology, and social sciences, it has not developed the curricula for three individual bachelor’s degrees, as required under the agreement (see page 11). With regard to becoming self-sustaining, AUAf has increased revenue from student tuition but is struggling in its fund-raising efforts, which are essential in order for the university to become sustainable (see page 8).

The audit found other problems as well. The university was not in compliance with agreement terms—as it had not submitted its required Year 2 budget, Year 2 work plan, and performance management plan—and as a result, the mission was withholding incremental funding. The university’s Professional Development Institute will not meet its financial contribution goal. The university may not meet its goal of increasing enrollment of women to 30 percent. The undergraduate preparatory program was not preparing students adequately to become undergraduates. University contracting was deficient and did not consistently document its competitive bidding process. Items funded by USAID were not marked as having been provided by the U.S. taxpayer. Finally, environmental procedures were not followed in construction of the new campus or in renovations of existing facilities (see pages 11–20).

Despite gains made in several areas, this report makes 18 recommendations to improve the mission’s implementation of the program. The report recommends that USAID/Afghanistan:

- Continue to withhold incremental funding until all required documents are submitted by the university (page 8).
- Work with the university to establish procedures for timely submission of the annual budget (page 8).
- Work with the university to establish procedures for timely submission of the annual work plan and performance management plan (page 8).
- Determine how excess funds, estimated at \$6.4 million, will be put to use within the agreement or other mission programs (page 8).
- Review whether to approve subcontracts entered into by the university that have not been approved by the mission (page 8).
- Prepare a sustainability plan so that the university will not be dependent on mission funding after the end of the program (page 9).
- Work with the university in developing a construction implementation plan for its new campus (page 11).
- Work with the university to complete a 4-year curriculum for the three undergraduate degrees identified in the agreement (page 12).
- Require the university to develop a business plan for the Professional Development Institute Program (page 13).
- Modify the agreement to add a business manager position for the Professional Development Institute (page 13).
- Develop an implementation plan for the Professional Development Institute that will address deficiencies in program quality (page 14).
- Require that the action plan developed to increase the proportion of women enrolled at the university be incorporated into key program planning documents (page 15).
- Develop a plan to improve the university's undergraduate preparatory program (page 16).
- Review the university's procurement system, as required by the agreement (page 17).
- Review procurement files before approving construction subcontracts in order to verify that adequate competition existed during the bidding process (page 18).
- Evaluate the university's branding and marking plan and make a determination as to the acceptability of the plan (page 18).
- Establish procedures for the submission of environmental mitigation and monitoring plans for new construction (page 20).
- Obtain a written legal decision from the mission's regional legal advisor on how to proceed for completed and in-process projects for which environmental procedures were not followed (page 20).

The audit scope and methodology are described in Appendix I (page 24).

The Office of Inspector General evaluated the mission's response to the draft report and determined that final action has been achieved on 3 of the 18 recommendations (Recommendations 4, 16, and 18). A management decision has been reached on the other 15 recommendations. The mission's written comments on the draft report are included in their entirety, without attachments, as Appendix II to this report (page 26).

AUDIT FINDINGS

The American University of Afghanistan Is Not in Compliance With Agreement Terms

According to the cooperative agreement, the American University of Afghanistan (AUAf) was required to submit its annual budgets and work plans to the mission for approval by October 30 every year after the first year of the program. Furthermore, the agreement states that AUAf was required to submit a performance management plan for approval within 60 days of award of the agreement.

AU Af submitted a budget and work plan for Year 1 of the agreement but has not submitted a Year 2 budget or work plan, even though at the time of the audit only 2 months remained in the second year of the agreement. Furthermore, while a draft results framework has been submitted by AU Af, a final performance management plan— inclusive of indicators and targets by year to monitor progress under the program—has not been submitted.

The university did not provide a Year 2 budget, work plan, or performance management plan to the mission because (1) AU Af staff did not know USAID’s processes, (2) AU Af did not document institutional processes for preparing and updating these submissions, (3) AU Af delayed in obtaining board approvals before submission of required documents to the mission, and (4) previous AU Af management had given a low priority to agreement deliverables.

AU Af was unfamiliar with mission processes because AU Af’s senior management changed completely during Year 2 of the agreement. The change set up a new senior management team that includes the university president, chief financial and administration officer, and monitoring and evaluation director. This new staff does not have much experience in dealing with USAID requirements. Neither the finance director, who reports to the chief financial and administration officer, nor the monitoring and evaluation director has experience in preparing the agreement’s required reports.

During the audit, AU Af provided the mission with working drafts of the budget and a list of indicators that AU Af hopes to use to measure performance. The agreement officer’s technical representative (AOTR) reviewed the submitted documentation and provided comments on the necessary improvements. The submitted budget could not be approved because it did not provide the necessary details on items that USAID would fund.

To assist in the preparation of the work plan and performance management plan, AU Af hired a consultant to mentor the monitoring and evaluation director. Frameworks for the work plan and performance management plan were prepared, but these documents had not yet been submitted to USAID for approval at the time of the audit. According to the university, the monitoring and evaluation position performs several functions, including preparing the work plans and performance management plan for the mission and leading in the preparation of the documentation for the university’s accreditation process.

The AOTR expressed concern, because she believes that the USAID reporting and university accreditation responsibilities should be segregated because of the significant workload and differing priorities each involve.

Additionally, although AUAF has begun to prepare the work plan and performance management plan, with the assistance of a consultant, the university had no process in place to ensure that these plans are updated annually, as required by the agreement. Furthermore, AUAF is still working to determine how its budget submission will be prepared and in what format.

Finally, AUAF's board of trustees also contributed to the delays in submitting the budget and work plans. The chief financial and administration officer at AUAF was working on the budget for Year 3 of the agreement and had hoped to present that budget to AUAF's board of directors at the May 2010 board meeting; however, that meeting was postponed to June. If that budget is approved, AUAF will present the budget to USAID for approval and then begin on the work plan. The budget approval process that AUAF is pursuing may delay the submission of future budgets as well. This practice of presenting the budget to the board first may cause delays because the board might not approve the budget, thus leaving AUAF without a budget until the next board meeting. Or a budget approved by the board might not be acceptable to the mission. According to the AOTR, the preferred procedure would be for the mission to approve the budget before it goes to the board for approval. This approach would allow AUAF to begin receiving funds.

Furthermore, according to the monitoring and evaluation director, it is unclear what input the board of trustees will have on the performance management plan, but AUAF expects to present the plan to the board for comment and possible approval. This process could further delay submission of the performance management plan.

To motivate AUAF to submit these documents in a more timely manner, the mission has decided to suspend incremental funding until all documents are submitted properly for approval. Without having these required documents in place, the mission cannot ensure that the program stays on track; excess funds cannot be used for other purposes; assets purchased with USAID funds cannot be identified with certainty; and the mission cannot oversee subcontracts signed by the university.

The mission needs approved budgets, work plans, and performance management plans to ensure that the program adheres to its schedule. Budgets determine which program elements may require adjustments to meet agreement goals. Work plans document how AUAF and the mission intend to implement the agreement and specify the mechanisms to be used to achieve established goals. Performance management plans establish a means for tracking progress so that elements falling behind schedule can be evaluated to determine and then mitigate the causes for the delays. Because these three deliverables were not in place, several critical program components fell behind schedule, such as developing the undergraduate program (see page 11), improving university fund-raising (see page 8), attaining gender enrollment goals (see page 14), and developing a new campus (see page 9).

In addition, with no Year 2 budget in place, excess funds cannot be identified and put to other uses, either within the program or in other mission programs. During the first year of the program, AUAF had a budget of \$10.1 million. AUAF expended nearly \$5.5 million,

leaving unused funds of \$4.6 million. As of May 2010, the mission estimated that AUAF would not expend an additional \$1.8 million from the Year 2 budget, for a total of \$6.4 million in excess funds from Year 1 and Year 2 of the agreement. These unexpended funds could have been redistributed within the agreement or put to use in other programs at the mission. The purpose of the annual budget realignment is to identify excess funds available from a prior year and decide how to use them in future years. For example, AUAF completed implementation of the regional partnership component of the agreement, with the American University of Central Asia, by installing a video teleconference system that allows classes to be taught in both Kabul and Bishkek, Kyrgyzstan, simultaneously. An updated budget and work plan would allow a shift of excess funds to other components under the agreement.



This video conference room is used for teaching classes to students from Kabul and Bishkek, Kyrgyzstan. Classes started in the completed classroom in fall 2009. (Photo by Office of the Inspector General, May 2010.)

Additionally, the lack of an approved budget has put at risk the assets purchased by the AUAF with mission funds, because these assets cannot be clearly identified or segregated. If the university were to close or be liquidated, the assets could not be clearly identified and the mission might not be able to recover the assets. Furthermore, without clear knowledge of which assets were purchased with mission funding, appropriate branding and marking of cofunded assets could be very difficult.

Moreover, without a budget, the mission cannot adequately oversee large subcontracts. According to the mission's acquisition officer, in typical agreements, grantees are required to submit subcontracts for approval or "consent to subcontract" before awards are made. However, the AUAF agreement relies on the budget review process to identify subcontracts, and approval of the budget serves as the mission's approval to expend funds on the subcontracts. Without an approved Year 2 budget, the mission has lost this capacity for oversight. Specifically, AUAF entered into a subcontract for security services in August 2008 at a fixed monthly cost of \$56,000. Since the award was made, the subcontract has been modified 13 times, including extending it for 1 year through August 2010. Current monthly costs are approximately \$92,000—62 percent higher than originally negotiated. Although the security subcontract was included in the approved Year 1 budget, without a Year 2 budget the mission had no knowledge of the escalating

security costs or control over them. AUAf commented that it was preparing to extend the contract again, for an additional year, when it expires in August 2010.

Recommendation 1. *We recommend that USAID/Afghanistan continue to withhold incremental funding until all required documents—Year 2 budget, Year 2 work plan, and performance management plan—are submitted by the American University of Afghanistan and approved by the mission.*

Recommendation 2. *We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish budgeting procedures for timely submission of budgets, to include approval of how USAID funding will be used before the budget is submitted to the American University of Afghanistan’s board of trustees, and to require that the budget provide direct linkages to the annual work plan.*

Recommendation 3. *We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish procedures for timely submission of the annually revised work plan and performance management plan.*

Recommendation 4. *We recommend that USAID/Afghanistan decide how excess funds of \$6.4 million from Year 1 and Year 2 are to be used, either within the agreement or for other mission programs.*

Recommendation 5. *We recommend that USAID/Afghanistan require the American University of Afghanistan to obtain mission consent to subcontract before entering into the follow-on security contract or any other subcontract with mission funds, until such time as the budget is submitted and approved by the mission.*

Financial Sustainability of the University Is Questionable

When USAID/Afghanistan developed the program, the mission’s education strategy included the principles of focusing on sustainable capacity and avoiding the use of project resources to create unsustainable subsidies. USAID/Afghanistan’s goal has been to ensure that Afghan partners become providers of quality educational services without the need for continuing USAID support. These principles were meant to guide project design, implementation, and evaluation. The cooperative agreement itself states that financial development will be expanded to enable AUAf to become a self-sustaining educational enterprise. Specifically the cooperative agreement sets overall targets for raising funds for operations, raising funds for construction of a new campus, and increasing revenue from tuition as a means of achieving sustainability—all by the end of the agreement’s last year.

AUAf is increasing revenue from tuition; however, it has struggled in its fund-raising efforts. Over the 5-year agreement period, AUAf is required to raise \$14 million and \$23 million to offset expenses for operations and new campus capital improvement, respectively. As of May 2010, AUAf had raised only \$4.5 million of the \$14 million required—and only \$2.2 million had been collected, the remainder consisting only of pledges. AUAf acknowledges that not all of the pledges will materialize into actual

donations. Even assuming that similar amounts will be raised, inclusive of pledges, AUAf will still fall short of its goal by \$1.2 million between May 2010 and the end of the agreement.

Although the university plans to raise \$23 million in capital for the construction of the new campus, as of May 2010 AUAf had identified only two donors. One donor committed in writing to provide a no-interest \$2.2 million loan, while another pledged to construct one of the academic buildings. However, since no final costs for any of the structures have been established through actual architectural design plans, AUAf cannot put a cumulative value on these two pledges.

Furthermore, a key deliverable built into the agreement was counter to the goal of self-sustaining operations. Specifically, AUAf's Year 1 budget estimated that USAID would fund 80 percent of its operating costs. By the end of the agreement in 2013, AUAf is expected to reduce dependence on the mission to no more than 40 percent of AUAf's operating costs. Overall, through fund-raising activities and tuition revenue, AUAf is expected to cover only 60 percent of its operating costs.

AUAf has struggled in its fund-raising activities because it lacks staff dedicated to fund-raising activities and lacks coverage of these types of activities in a Year 2 work plan, budget, and performance management plan. AUAf recognized the problem and has developed a documented strategy for increasing its fund-raising activities that includes hiring additional staff. However, without a work plan, a budget, or a performance management plan, the university has no mechanism to implement the strategy. Finally, the mission contends that when the original agreement was developed, USAID/Afghanistan was under extreme political pressure to complete the agreement very quickly. As a result, the wording in the agreement did not accurately reflect the mission's desire for the university to become self-sustaining.

Since this is a 5-year program with no planned follow-on, it is questionable whether AUAf will become self-sustaining after Year 5 of the program. If AUAf is not able to cover all of its operating expenses by the end of Year 5, the university is at risk of closing down for lack of funds. This outcome would represent an enormous waste of the mission's \$42 million investment.

***Recommendation 6.** We recommend that USAID/Afghanistan prepare a sustainability plan—so that by the end of the agreement the American University of Afghanistan will no longer be dependent on mission funds—and incorporate this plan into the agreement, work plan, budget, and performance management plan.*

Development of a New Campus Is Behind Schedule

According to the cooperative agreement, major construction projects were to be planned, infrastructure installed, and construction of Phase 1 under way so that the transition from the interim to new campus could start in the third year of the agreement. However, AUAf plans to start construction of critical structures, such as faculty housing

at the new campus site, in fall 2010. This schedule will delay movement of staff to the new campus by approximately 1 year.

AUAf fell behind in the development of the new campus because mission requirements for construction oversight changed and AUAf's decision-making process was slow.

In August 2008, when the agreement was first awarded, the only requirement for AUAf was to obtain mission approval for construction activities that cost over \$250,000 or that have the potential for significant safety or environmental concerns. In November 2008, the mission issued revised guidance that required all structures funded by the mission to meet the standards of international building codes and be approved by the mission's Office of Infrastructure, Engineering and Energy. During this period, AUAf was preparing a request for proposal (RFP) for the design of the first phase of the new campus, and the RFP was released in June 2009. Although AUAf attempted to engage the mission in the technical evaluation of proposals it had received, the RFP had been released and the mission did not have enough lead time to participate. However, mission engineers did review the RFP informally in October 2009.

The acquisition officer at the time informed AUAf that the mission would review the final subcontract only under the terms of the agreement. However, on the basis of an ongoing Office of Inspector General audit in fall 2009,² the mission asked AUAf to stop all construction activities, including the design of the new campus, even though the AUAf board of trustees had already selected an engineering firm to create the design.

The mission clarified its policy in December 2009 by extending engineering oversight to all subcontracts. The mission also concluded that a mission-approved international design firm should design the new campus and began coordinating with AUAf and the new design firm under a new mission program to develop a statement of work. The mission issued a work order in January 2010 for the design of the new campus, using its approved contractor. The draft design was completed in May 2010 and was awaiting AUAf input.



Architectural rendering, prepared by the mission-approved design firm, of the proposed faculty housing for the new campus. (Image courtesy of Tetra Tech, Inc.)

Besides the change in mission policy, additional delays resulted from the AUAf board of trustees on how to proceed with construction. AUAf requested additional clarification on the mission's policy, even as the design was moving forward with the mission's design firm. Specifically, AUAf wanted to know what mission involvement would be required if

² "Audit of USAID/Afghanistan's Human Resources and Logistical Support Program," Audit Report No. 5-306-10-007-P, March 31, 2010. The audit noted that not all mission construction projects were receiving the quality assurance reviews, onsite inspections, and monitoring services required by USAID/Afghanistan's policies and procedures.

independent funding were used. In March 2010 the mission outlined five options for the AUAF board of trustees that included using program funds for 100 percent of the new campus design, using no program funds, or using a mix of funds. Each option presented by the mission identified the oversight role the mission would perform.

AUAF's board of trustees was to meet at the end of March 2010 and select an option; however, the board reached no decision, and the topic was deferred to a subsequent board meeting. As of early June 2010, the board of trustees had not selected any of the five options, and AUAF cannot move forward until a decision is made.

AUAF hopes to begin moving into its new structures by fall 2011, and the mission's Office of Infrastructure, Engineering and Energy affirmed that this is possible if no other delays occur.

The delay in construction could affect AUAF several ways. First, AUAF has stated that one of the initial structures will be new faculty housing. AUAF contends that without adequate housing, they may not be able to continue to recruit staff. Second, by moving staff into centralized housing, AUAF may save some costs on security by having to secure only one facility instead of multiple guest houses. Furthermore, AUAF claims that it can eliminate the cost of guest house leases and save even more money. Finally, the new campus is planned for approximately 5,500 students, and delays in construction might affect AUAF's ability to continue increasing enrollment as it runs out of space on its existing campus.

***Recommendation 7.** We recommend that USAID/Afghanistan work with the American University of Afghanistan to develop a construction implementation plan for its new campus and update the agreement, budget, and work plan in accordance with the plan.*

Four-Year Undergraduate Curriculum Development Is Behind Schedule

The cooperative agreement requires the program to deliver a full 4-year curriculum for the three undergraduate degrees offered: a bachelor of science in information technology and computer science, a bachelor's in business administration, and a bachelor's in general studies. According to the AOTR, this deliverable should have been completed within the first year of the program.

Although AUAF is making progress in expanding curriculum offerings, the development of the original 4-year curricula for the three undergraduate degrees is experiencing delays. The university now offers over 100 classes, and while this represents an improvement in course offerings since inception of the program, the university has effectively dropped its original undergraduate degrees and replaced them with a bachelor of arts degree with concentrations in information technology, business, or social science. As a result, starting in the fall of 2009, students entering the university have been required to register for bachelor of arts degrees with one of the three concentrations. Students already enrolled in one of the other degree programs were asked to switch from their declared majors to the new one with a concentration. However, AUAF now plans to use existing classes that support the concentrations to promote development of the three original

degree programs. AUAf plans to ask its board of trustees for permission to reconstitute the original three degrees and hopes to complete the curricula by spring 2011—one and a half years behind schedule.

Progress in curriculum development has been slow because of (1) conflicting goals between the mission and AUAf during the first year of the program, (2) a shortage of qualified faculty at AUAf dedicated to curriculum development, and (3) the lack of a detailed work plan, budget, and performance management plan to track progress in achieving this goal. According to key stakeholders, during the first year of the program under the prior AUAf management team, AUAf focused more on developing plans for the new campus as its top priority than on other parts of the agreement, such as curriculum development. In addition to conflicting goals between the mission and previous AUAf management team, AUAf claims that development of the three original curricula became problematic at the beginning of the program because the university could not increase enrollment and thereby get additional teachers to work on curriculum development. As discussed in the first finding (see page 4), AUAf did not submit a timely work plan, budget, or performance management plan that could have been used to identify the delay sooner. AUAf and the mission should have identified the delays, incorporated specific work plan activities, and budgeted for activities (such as hiring consultants) to assist in the development of the curriculum.

Because it has not developed a 4-year targeted curriculum for the specialized degree areas, AUAf may not be able to compete with other higher education institutions, and its enrollment may decline. According to AUAf, although students switched from their original degrees to the general degree with a concentration, they were not pleased with the changes, as the original degrees had offered more of the in-depth instruction in specific areas of interest that had caused them to enroll at AUAf in the first place.

Even though AUAf has a plan in place to complete the original 4-year curriculum by the spring of 2011, we nonetheless make the following recommendation:

Recommendation 8. *We recommend that USAID/Afghanistan develop an implementation plan with American University of Afghanistan to complete the 4-year curriculum for the three undergraduate degrees offered (bachelor of science in information technology and computer science, bachelor of business administration, and bachelor of arts in general studies) by spring 2011 and incorporate this implementation plan into the annual work plan, budget, and performance management plan.*

The University's Professional Development Institute Will Not Meet Its Financial Contribution Goal

The university's Professional Development Institute (PDI) offers special professional courses in the areas of business English, information technology, leadership, and business management. The courses target corporate clients, nongovernmental organizations, and Afghan government ministries. The cooperative agreement requires that the PDI program increase to 500 participants by Year 5 of the program, and more

importantly provide a net financial contribution to the university of over \$2 million in Year 5.

AUAf has made progress in increasing the number of participants in PDI courses. By the end of the program's second year, an estimated 404 participants will have been enrolled in PDI courses. However, the AUAf administration does not expect PDI to meet the expected financial contribution by the end of Year 5 of the agreement. They project that the program will provide a net financial contribution to the university of only about \$1 million by the final year of the agreement.

PDI's financial contributions fell short because of the lack of a director with a strong background in both the pedagogical and the business sides of the program. The lack of such a director, plus the poor estimation of the goal at the time of the award, caused a shortfall in the funds expected to be made available by PDI activities.

The director explained that PDI did not have an operational budget or work plan for the program. She also explained that the previous director had been much more involved on the business side of the institute than she has been. She said that she is an educator and that she is trying to improve the quality of the program and the perception that potential clients have of the program. She admitted that she does not have a strong business background and could benefit from additional assistance. In addition, PDI has no business manager position in the list of key personnel in the AUAf cooperative agreement. Hiring a business manager should be a priority for PDI.

AUAf's current administration also does not expect to meet PDI's original goal of contributing an annual net \$2 million by the end of the agreement. The administration does not expect PDI to meet its targeted financial contribution because that goal was poorly planned at the time the award was made for the program.

Without a business plan and someone with strong business skills to assist in its implementation, PDI will fall short in its expected financial contributions, making it more difficult for AUAf to become sustainable.

Recommendation 9. We recommend that USAID/Afghanistan require the American University of Afghanistan to develop a business plan for the Professional Development Institute program and incorporate this plan into the American University of Afghanistan's annual budget, work plan, and performance management plan.

Recommendation 10. We recommend that USAID/Afghanistan revise the list of key personnel to be approved by the agreement officer's technical representative in the cooperative agreement to include the position of business manager for the Professional Development Institute.

The University's Professional Development Institute Requires Improvement

Among its requirements, PDI has an attendance policy that students must attend 80 percent or more of their scheduled classes to complete a course successfully. Students may request an excused absence under certain circumstances. Furthermore, the agreement calls for a broad offering of continuing education programs through PDI to build capacity for the private and public sectors.

During the review of a sample of PDI's course syllabi, class rosters, and attendance records, the audit noted that a significant number of students enrolled in the classes were not attending at a satisfactory rate. Of the eight classes selected for review by the audit, five classes were part of the English Training for Afghan Ministries (ETAG) Program. ETAG is an initiative sponsored by the mission to help develop English skills at selected Afghan government ministries. Attendance problems were noted in both the ETAG and other PDI classes. For example, in a recently offered course on legal English completed at the Ministry of Justice, only 15 of the 25 students (57 percent) had an attendance rate of 80 percent or more.

Attendance was poor because students lacked interest and most of the reviewed course syllabi contained no written completion requirements. The PDI director explained that some students attended irregularly because they lacked interest. In discussions with some of the students and instructors, she learned that in an attempt to fill the classes, supervisors had assigned individuals who had no interest in learning English or were too busy to attend the classes regularly. Additionally, the audit noted that recent changes in the passing/attendance requirements for PDI courses were not noted in six of the eight course syllabi reviewed.

Capacity building for the Afghan public sector is weakened by the students' poor attendance, specifically those enrolled in the ETAG courses. Additionally, client companies, ministries, or sponsoring agencies may perceive that their investment has been wasted and decline to renew or continue classes.

Recommendation 11. *We recommend that USAID/Afghanistan develop an implementation plan with the American University of Afghanistan for the Professional Development Institute to require quality standards that address issues such as attendance requirements. This implementation plan should be reflected in the annual work plan, budget, and performance management plan.*

Attaining Gender Enrollment Goals Poses Challenges

According to the agreement, AUAF should increase the proportion of women enrolled in all programs from 16 to 30 percent by Year 5 of the program. AUAF has increased enrollment of women to an average of 20.5 percent but is concerned that it may not reach the 30 percent required by the agreement.

AUAf does not believe it can reach its target for several reasons. Afghan women are seldom educated to the same standards as men. Quality public education is rare for women at the high school level and below, and cultural issues prevent women from attending higher education institutions. Men may attend private English language and computer institutes after normal school hours, but women students often receive only the government's standard educational program. In most cases, government-run schools do not teach English to an adequate level and have few technological resources at the student's disposal. Moreover, Afghan cultural norms make families unwilling to send their daughters or nieces to an American higher education facility because of the stigma against associating with foreigners. This stigma is taken very seriously, even in Kabul. Furthermore, although AUAf tries to recruit more women from other provinces, even those who are qualified are prevented by their parents from attending a university. AUAf has developed an action plan that includes (1) identifying and working with private girls' schools, (2) working with the Ministries of Education and Women's Affairs to extend its outreach, and (3) increasing advertising to attract women applicants. However, AUAf has no Year 2 budget or work plan that incorporates such initiatives.

One of the mission's primary goals is to improve the prospects of women in Afghanistan. If the established target for women students is not met, these prospects may not be achieved.

***Recommendation 12.** We recommend that USAID/Afghanistan require that the action plan developed by the American University of Afghanistan to increase the proportion of women enrolled at the university be incorporated into its annual work plan, budget, and performance management plan.*

The Foundation Studies Program Is Not Delivering Desired Results

According to the cooperative agreement, the Foundation Studies Program (FSP) serves as an undergraduate preparatory program, providing training to improve and, where necessary, to remediate English, mathematics, and study skills. The overall goal of the program is to make sure that students are prepared to enter undergraduate studies and have the requisite skills to succeed.

Interviews with faculty disclosed that students entering the undergraduate program did not always have the requisite competence in English to succeed in a university undergraduate program. Teachers commented that instruction was difficult because students in their undergraduate classes had different levels of English proficiency. Several students commented that they were not satisfied with the quality of the Foundation Studies Program. Moreover, the AOTR commented that AUAf initially had planned to offer only English remediation but later discovered that although students might have the requisite English skills, they might not have the necessary math skills. AUAf confirmed that the current FSP does not always prepare students for transition into undergraduate programs.

The FSP is not achieving its desired result because the curriculum has not been finalized; success is measured only by passing a standardized test; and work plans, budgets, and performance measures to monitor the program have not been completed.

According to AUAf, the curriculum for the FSP is being finalized and should be ready for the fall 2010 semester. As a contributing factor, AUAf uses results from the Test of English as a Foreign Language (TOEFL) as a basis for measuring the success of the program and as an indicator of a student's ability to succeed in the undergraduate curriculum. Students must achieve a minimum score of 500 to graduate FSP and enroll in the undergraduate program. However, AUAf now recognizes that additional quality measures are required to ensure that students completing FSP are ready to enter an undergraduate curriculum. The TOEFL score alone is not a good measure, because it does not test a student's critical thinking skills. AUAf is implementing the following measures to improve the quality of the FSP program: (1) raising the TOEFL score requirement to 510, (2) including a written component that would test critical thinking skills, and (3) creating an FSP curriculum that will focus more on academic skills than solely on the four skills of reading, writing, listening, and speaking. Finally, while AUAf has plans to finalize the curriculum and adjust its measures of student progress, these improvements have not been implemented through the work plan, budget, or performance management plan.



Renovation funds were used to rehabilitate the university's administration building. Rehabilitation included general-purpose classrooms and administrative offices. (Photo by Office of Inspector General, May 2010.)

Students who are not prepared for undergraduate studies are at risk of failing. Moreover, without the requisite skills, these students slow the progress of all undergraduates, as teachers must divert instruction time to accommodate them. Finally, if this aspect of the agreement is not properly developed, resources will be wasted on students who cannot succeed in the undergraduate program.

Recommendation 13. *We recommend that USAID/Afghanistan develop an implementation plan with the American University of Afghanistan for the Foundation Studies Program to include completion of the curriculum by fall 2010, and development of quality standards to assess program graduates' ability to succeed in the undergraduate program. This implementation plan should be reflected in the annual work plan, budget, and performance management plan.*

University Contracting Requires Improvement

The cooperative agreement requires that AUAf maintain a set of written procurement procedures that defines the level of documentation required for the university's procurement and contracting files. The cooperative agreement also requires that AUAf establish procedures to conduct formal evaluations of its contractors' performance.

Although AUAf has documented procurement practices, and our review of small procurements disclosed no irregularities, our review of three large procurements³ and one in-process procurement disclosed that AUAf was not consistently documenting its competitive bidding process. Furthermore, in one of the three procurements reviewed representing a 2-year security contract AUAf did not conduct a formal evaluation of the contractor's performance.

Specifically, our review of the four procurement files disclosed that one contract file for security services in August 2008 did not contain sufficient evidence to show which proposals were considered prior to the award of the contract, although AUAf did document the reason for extending the security contract. The file did not contain the proposals submitted by all the bidders or the technical evaluation of all the bids submitted. In another instance, AUAf was asked to provide the procurement file for the in-process award of the new campus design, but it could not produce the file and claimed that no such file existed.

AUAf should have evaluated contractor performance, but AUAf did not have established criteria for evaluating performance. AUAf commented that it was not aware of the requirement in the agreement to conduct a contractor performance review.

According to the current AUAf management team, procurement and contracting policies were not in effect until recently, and the university did not know what happened to the missing documentation and files. AUAf contends that new procedures now in place should provide greater assurance of compliance with good business practices.

Furthermore, the mission could have detected these issues sooner had it performed semiannual reviews of AUAf's procurement system as required in the agreement. According to the mission's acquisition officer, time constraints and staffing issues caused the review to be overlooked.

Internal controls are a major part of managing an organization. They comprise the plans, methods, and procedures used to meet organization goals and objectives. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Procurement internal controls ensure that USAID funds are used efficiently to procure quality items and services at the lowest cost. Furthermore, adherence to procurement policies and procedures reduces the risk of fraudulent transactions. Finally, by establishing clear criteria for contractor evaluation, AUAf can make an informed decision that is based on contractor performance on whether to retain a contractor or replace it.

³ *Large procurement* is defined in this case as a procurement of \$250 thousand or more.

AUAf commented that it is developing and documenting its contractor performance review process. However, we are making the following recommendations.

Recommendation 14. *We recommend that USAID/Afghanistan's Office of Acquisition and Assistance perform the semiannual review of the American University of Afghanistan's procurement system as required by the agreement until such time as it certifies their system.*

Recommendation 15. *We recommend that USAID/Afghanistan review all construction procurement files before approving the subcontracts and verify that adequate competition existed during the bidding process.*

Items Funded by USAID Were Not Properly Marked

USAID's Automated Directives System 320.3.3 sets forth USAID's policy that programs, projects, activities, public communications, or commodities implemented or delivered under co-funded instruments, such as cooperative agreements, generally be comarked with the USAID identity. In addition, according to the terms of the agreement, AUAf was required to brand and mark items funded by the mission after submission and approval of a branding and marking plan.

However, AUAf did not mark items funded by USAID in accordance with USAID's branding and marking policy and applicable agreement terms. Specifically, AUAf did not mark USAID-funded projects, such as renovations of existing university structures, or equipment purchased, such as personal computers.

Items funded by USAID were not branded because AUAf did not have an approved plan, even though the agreement requires one. According to the AOTR, AUAf verbally requested a waiver for all branding and marking in a September 2008 meeting; however, no waiver request was ever submitted to the mission. According to the AOTR, this topic came up in meetings in the fall of 2009, but other issues arose that were considered more important. Specifically, the resignation of the university's president, the search for a new president, obtaining current budgets and work plans, and construction issues were considered higher priorities. AUAf submitted its first branding and marking plan draft on February 16, 2010—over 17 months late. According to AUAf, the previous management team did not consider the plan as a high priority. In May 2010, AUAf submitted a revised draft that was based on mission comments to the February 16, 2010, submission. The mission is reviewing the plan.

Complicating the issue is the lack of a budget that specifically identifies assets purchased with mission funds, as discussed above (see page 7).

The mission's support to AUAf is crucial to USAID's efforts to build a competitive, private higher education program. This \$42 million program is intended to be a key first step in establishing a system of private higher education institutions within Afghanistan. USAID is not enhancing the visibility and value of U.S. foreign assistance to the Afghan community if items are not properly branded or marked. Therefore, this audit makes the following recommendations:

Recommendation 16. *We recommend that USAID/Afghanistan evaluate the American University of Afghanistan's May 2010 revised branding and marking plan and make a determination as to the acceptability of the plan.*

Environmental Procedures Are Not Being Followed

According to a mission order,⁴ it is the mission's responsibility to take steps to ensure compliance with USAID environmental policies and not to commit resources to programs or activities before environmental reviews are completed and approved in writing. Findings from such reviews are incorporated into the design and budget for the program or activity. The mission is also required to modify or end activities that are not in compliance with environmental procedures. Specifically, the initial environmental examination for the mission's education programs states that for construction of large-scale infrastructure activities (including universities), the implementing partner must prepare a scoping statement and environmental assessment before construction begins. Furthermore, the cooperative agreement states that AUAf must submit an environmental mitigation and monitoring plan at least 1 month before the start of any construction or rehabilitation activities undertaken with USAID funds. Further, AUAf must also ensure the use of safety practices and standard safety equipment, such as eyeglasses or gloves during construction and rehabilitation activities.

Since the inception of the agreement, AUAf has completed several construction and renovations projects without submitting an environmental mitigation and monitoring plan as outlined by the agreement. Specific examples of completed projects include:

- Installation of a septic system at the new campus site.
- Construction of a utility building at the new campus site.
- Completion of work for a fuel storage tank and installation of fuel pump station for fuel distribution.
- Construction of a new water reservoir and waterways (channels) for irrigation of the new campus.
- Construction of an extension to the existing cafeteria.
- Demolition of old structures on the new campus grounds.

AUAf did not submit any environmental mitigation and monitoring plans for any of these projects, nor did the mission ever request them, even though the university's quarterly reports to the mission documented progress on the projects.

The current AUAf management team does not know why the required statements were not submitted to the mission. AUAf commented that it will update its procurement policy to include standard safety clauses in future rehabilitation and construction contracts. According to the AOTR, mitigation plans were not requested because other issues took

⁴ "Mission Implementation of USAID Environmental Policies and Procedures," Mission order number 204.02, issued on June 1, 2009.

higher priority, such as recruiting of a university president and obtaining a Year 2 work plan and budget.



Renovation funds were used to rebuild Building C, which includes computer labs, science labs, general purpose classrooms, the video conferencing classroom, and the library. (Photo by Office of Inspector General, May 2010)

Without proper environmental reviews, USAID/Afghanistan cannot ensure that proper environmental safeguards have been adopted and incorporated into development projects. The result could be environmental damage or injuries to workers on the program or to beneficiaries. Therefore, this audit makes the following recommendations:

Recommendation 17. *We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish procedures for the submission of the required environmental mitigation and monitoring plans for new construction.*

Recommendation 18. *We recommend that USAID/Afghanistan obtain a written legal decision from its Regional Legal Advisor on how to proceed for completed and in-process projects in which environmental procedures were not followed.*

EVALUATION OF MANAGEMENT COMMENTS

The Office of the Inspector General reviewed the mission's response to the draft report (received October 14, 2010) and determined that final action has been achieved on 3 of the 18 recommendations (Recommendations 4, 16, and 18). A management decision has been reached on the other 15 recommendations. The status of each of the 18 recommendations is discussed below.

In response to Recommendation 1, the mission noted that required actions under the recommendation have been overtaken by developments subsequent to the audit fieldwork. However, the mission is still pursuing approval of the budget, work plans, and performance management plans. At the same time, the mission only withheld some of the funding so as not to cripple the launching of the 2010-11 academic year. We expect that the mission will approve all the required documents noted above by November 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 2, the mission stated that the university's administration and Board of Trustees have agreed on a series of new budget procedures that will ensure the timely submission of the university's budget. These new procedures will be followed for the Year 4 budget submission and onward. The cooperative agreement will be modified to include these new procedures. The mission expects action to be completed by December 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 3, the mission stated that in conjunction with the modification of the cooperative agreement to reflect the new budget approval procedures (as discussed above), the mission will modify the cooperative agreement to incorporate the agreed upon requirements for approval of the annual work plans and performance management plan. The mission expects action to be completed by December 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 4, the mission has determined that the excess funds of \$6.4 million from Year 1 and 2 will be reprogrammed into Years 3-5 to fund activities intended by the award. We determined that final action has been taken on this recommendation.

In response to Recommendation 5, the mission's Office of Acquisition Assistance (OAA), in consultation with the agreement officer's technical representative, will provide consent to subcontract all firm fixed price contracts over \$100,000 and all cost-reimbursement contracts, which are funded with mission funds. A modification to the cooperative agreement reflecting OAA's role in the approval of the university's subcontract awards is expected to be completed by December 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 6, the university will undertake a 5-year strategic planning process, which will include the issue of the university's sustainability. The mission will review the 5-year strategic plan and determine whether funding might be extended beyond the original agreement. The mission expects that a final decision regarding future funding will be made by June 2011. Because a separate sustainability plan for the university will not be prepared, we conclude that the actions described will provide the mission a sufficient understanding of the current sustainability of the university and will also provide the mission with a tool to help it determine its possible future involvement with the university. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 7, the AUAF administration has determined that USAID funds will not be used for the construction of its new facilities. Modification to the agreement to reflect that USAID will not be involved in the approval of any further new campus construction activities is expected to be completed by December 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 8, the university has reformulated its degree programs to include a bachelor of arts in business administration, bachelor of science in computer science, and bachelor of arts in political science and public administration. Curricula have been developed for these degrees and incorporated into the 2010–11 university course catalog. The incorporation of the reformulated programs into the budget, work plan, or performance management plan is not complete, since these documents have yet to be approved by the mission. Completion of the budget and other plans is expected by October 15, 2010. Thus, we concluded that only a management decision has been reached on this recommendation.

In response to Recommendation 9, the mission states that the university is in the process of preparing a strategic plan for 2011–16. This strategic plan includes a business plan for the Professional Development Institute. The university will submit a plan for mission review by January 31, 2011. Mission expects that the plan will be fully incorporated into the Year 4 annual work plan, budget, and performance management plan by April 30, 2011. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 10, the university is preparing a business plan for the Professional Development Institute. Staffing qualification requirements are expected to be addressed in this plan. The mission and the university will discuss the qualification requirements for senior-level institute staff (i.e., director and/or business manager positions). The mission expects to reach a resolution on this matter by March 31, 2011 and to have the agreement modified by May 31, 2011, to reflect this potential new key personnel position. We determined that a management decision has been reached on this recommendation.

In response to Recommendation 11, the mission states that the university will revise its performance management plan to include learning achievement indicators as well as other quality standards for the Professional Development Institute. The mission expects to approve the university's performance management plan by October 15, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 12, the university has prepared a draft work plan for 2010–11, which incorporates plans for increased recruitment of women students. The mission expects that this work plan will be approved by October 31, 2010. We concluded that a management decision has been reached on this recommendation. We believe that final action should be granted only when the university has an approved budget, work plan, and performance management plan, that incorporate the changes described above.

In response to Recommendation 13, the university is finalizing the implementation of a new Foundation Studies Program curriculum, and additional quality standards have been put in place to measure the program graduates' abilities to succeed in the undergraduate program. The university plans to have the redesign completed by November 15, 2010. We concluded that a management decision has been reached on this recommendation. We believe that final action should be granted only when the university has an approved budget, work plan, and performance management plan that incorporate the changes described above.

In response to Recommendation 14, the mission's Office of Acquisition and Assistance has prepared a plan regarding the steps it will take in performing the review of the university's procurement system. A report on the review is expected to be issued by November 30, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 15, the mission has proposed a process by which all subcontractor construction procurements will be reviewed and approved by the mission prior to the commencement of work. This plan includes the review of any procurements that are funded in whole or part with USAID funds totaling more than \$100,000 as well as all cost-reimbursement contracts. The review is expected to take place by September 30, 2010. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 16, the mission has evaluated the university's May 2010 revised branding and marking plan and determined that it was unacceptable. The university has provided an additional branding and marking plan, which the mission is reviewing. The mission expects to have a final, approved branding and marking plan in place for the university by October 31, 2010. We concluded that final action has been taken on the recommendation, but we urge the mission to continue to work with the university until a final branding and marking plan is approved.

In response to Recommendation 17, the mission has established a process for the submission of Year 3 environmental mitigation and monitoring plans for renovation work to be done on existing university structures. Additionally, the university understands that after October 1, 2010, no construction or renovation projects using USAID funds can begin until the agreement officer's technical representative approves the environmental mitigation and monitoring plan for the project. We concluded that a management decision has been reached on this recommendation.

In response to Recommendation 18, the mission has obtained a written legal decision from the regional legal advisor on how to proceed for completed and in-process projects in which environmental procedures were not followed. We determined that final action has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this performance audit in accordance with generally accepted government auditing standards⁵. 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 based on 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 this audit was to determine whether USAID/Afghanistan's support to the American University of Afghanistan was achieving its main goals of increasing student enrollment, improving the school's infrastructure, increasing the number of qualified staff, reforming the undergraduate curriculum, and enhancing the university's ability to become self-sustaining.

USAID/Afghanistan entered into a \$42 million cooperative agreement in August 2008, effective through July 2013. As of April 30, 2010, USAID/Afghanistan had obligated \$13 million and disbursed \$11 million for agreement activities.

The audit was performed in the Islamic Republic of Afghanistan (Afghanistan) from May 5 to June 1, 2010, and covered the program's activities implemented from August 2008 to May 2010. In Kabul, fieldwork was conducted at USAID/Afghanistan and the American University of Afghanistan.

As part of the audit, we assessed the significant internal controls used by USAID/Afghanistan to monitor program activities. The assessment included controls related to whether the mission had (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by the contractor, and (4) compared reported progress to planned progress and the mission's own evaluations of progress. We also reviewed the mission's Federal Managers' Financial Integrity Act report for fiscal year 2009, and prior audit reports, for any issues related to the audit objective.

We also assessed various internal controls at the university related to preparation of the annual budget, work plan, and performance management plan. Finally, we reviewed internal controls related to the university's procurement and contracting system.

Methodology

To answer the audit objective, we interviewed officials from USAID/Washington, USAID/Afghanistan, and the American University of Afghanistan. We also reviewed and analyzed relevant documents at both the mission and the university. This documentation included performance management plans and the agreement between USAID/Afghanistan and the university. We also reviewed university progress reports and financial records as well.

⁵ *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

To determine the reliability of computer-processed data received from the mission in support of its obligated and disbursed amounts, we reviewed prior audits of the mission's financial statements and internal controls. To determine the reliability of computer-processed data provided by the university, we did the following:

- To validate enrollment data in the Foundation Studies and undergraduate programs, we (1) obtained a demonstration of the enrollment database in use and verified the existence of application controls within the system, (2) reviewed the database for duplicate students, (3) selected a random sample of students from the system and verified data contained in the system to source documents, and (4) verified, from a sample subset, the existence of the students through interviews.
- To validate enrollment data and class information in the Professional Development Institute, we selected a judgmental sample of classes in the system and reviewed and verified documentation related to the class, which included course syllabi, class rosters, and attendance records.
- To validate the faculty data provided by the university, we selected a random sample of teachers and verified the existence of employment contracts. For a subset of the sample, we verified the existence of the faculty through interviews.
- To validate data provided in support of renovations to the university, we selected a random sample of renovations and reviewed supporting procurement documentation. For a subset of the sample, we verified completion of the renovations through physical inspection.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Bruce N. Boyer, Regional Inspector General/Manila

FROM: Earl W. Gast, Mission Director, USAID/Afghanistan /s/

DATE: September 27, 2010

SUBJECT: Audit of USAID/Afghanistan's Support to the American University of Afghanistan (Agreement No. 306-A-00-08-00525) (Audit Report No. 5-306-10-00X-P)

REFERENCE: WMurphy/EGast memo dated August 5, 2010

Thank you for providing the Mission the opportunity to review the subject draft audit report. We would like to express our gratitude for the professionalism, flexibility, resourcefulness, and hard work exhibited by the audit team during their extensive work with the AUAF Management Team. We are providing confirmation of the actions that have been taken or are planned to be taken to address the recommendations in the report.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No. 1: We recommend that USAID/Afghanistan continue to withhold incremental funding until all required documents—Year 2 budget, Year 2 Work Plan, and performance monitoring plan—are submitted by the American University of Afghanistan and approved by the mission.

The Mission agrees with the recommendation. However, the required actions under the recommendation have been overtaken by developments subsequent to the audit field work as discussed below.

Summary of Actions Taken/Planned:

The Mission is currently conducting the review of AUAF's Year 3 budget (July 2010 – June 2011), work plan, and Performance Management Plan (PMP) for final approval. A

process for ensuring a proper Year 2 budget submission is proposed and will take place after the Year 3 budget issues are resolved. USAID will continue to approve monthly cash advances and liquidations only for budget items that are not in negotiations.

Detailed Actions Taken/Planned:

The Mission provided incremental funding to AUAF in February 2010, on the condition that no further incremental funding would be provided until its Year 2 budget (for July 2009- June 2010) was submitted in an acceptable format and approved by the Mission. At that time, AUAF was restructuring its internal budget systems in preparation for the Year 3 (July 2010 – June 2011) budget submission while an acceptable Year 2 budget remained outstanding. AUAF nearly exhausted its cash advances on hand in May 2010; at which point, USAID issued a June 2010 cash advance for only the remaining undisbursed obligation.

Since that time, AUAF has made incremental progress in submitting budgets that meet USAID requirements:

- AUAF submitted a draft Year 3 budget in July 2010. The budget was presented in a new format which provided a more detailed presentation of line items. It also included breakdowns among items to be funded by USAID, to be allocated to AUAF cost share, and to be funded outside both USAID and cost share.
- A draft budget narrative accompanied the budget submission, although the narrative did not contain sufficient detail on costs for USAID to conduct an analysis. USAID provided initial comments on the narrative.
- A revised budget narrative was later submitted which included sufficient explanations of costs for USAID to review for allocability, allowability, and reasonableness.
- The Agreement Officer's Technical Representative (AOTR) and AUAF met to discuss USAID's initial observations on the budget submission. AUAF later submitted a third draft of the Year 3 budget.
- The USAID Office of Acquisition and Assistance (OAA) conducted a review of the third draft and noted a number of unallowable costs as well as salary issues to be addressed.
- AUAF submitted a fourth draft which did not fully address the issues of unallowable costs. Comments were provided to AUAF on September 5.

In the course of the budget approval process, the Mission determined that withholding incremental funding and monthly cash advances would harm AUAF's ability to successfully launch the 2010-11 academic year. Thus, in July 2010, an agreement modification to provide incremental funding was executed to ensure program continuity; however, the July 2010 cash advance was not released until AUAF submitted the second draft of its Year 3 budget. It is anticipated that the Year 3 budget will receive final Mission approval by September 30, 2010, once the Work Plan for Year 3 is finalized. In the meantime, the Mission will continue to issue monthly cash advances to AUAF in order to allow AUAF to meet its payroll obligations and to avoid terminating staff.

As for the Year 1 and 2 budgets, the Mission has requested AUAF to present by October 15, 2010, a draft retroactive Year 2 budget that will allocate expenses directly to USAID or to AUAF's cost share. The Mission expects the final Year 2 budget to be approved by November 15, 2010. This budget will be linked to AUAF's Year 2 Annual Report. For Year 1, as AUAF's audit and financial statements are finalized for this period, AUAF will submit, by November 15, 2010, the list of non-expendable equipment purchased with USAID funds during that period. This list will be used to ensure proper inventory recording as well to monitor implementation of the AUAF Branding and Marking Plan. Should AUAF fail to submit the required documentation in a timely manner, the Mission will process a December 2010 cash advance request for AUAF staff salaries only.

A draft AUAF Year 3 Work Plan was submitted to USAID on August 25, 2010. The Mission is reviewing the plan and anticipates approval by September 30, 2010, in conjunction with approval of the Year 3 budget.

A draft PMP was submitted by AUAF in May, 2010. The Mission is reviewing the document, and is currently in discussion with AUAF on learning outcome indicators for the courses offered through its Professional Development Institute. In addition, the Mission is also developing a new PMP for the period 2011-2015, and new high-level Mission indicators will be added to the AUAF PMP once approved.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 2: We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish budgeting procedures for timely submission of budgets, to include approval of how USAID funding will be used before the budget is submitted to the American University of Afghanistan's Board of Trustees, and to require that the budget provide direct linkages to the annual work plan.

The Mission agrees with this recommendation.

The terms of the cooperative agreement require AOTR approval of the AUAF budget on an annual basis and by October 30 of each year. However, the University's fiscal year begins on July 1 and the Board of Trustees reviews the University's proposed annual budget prior to July 1. This process has proven problematic in the negotiations of the Year 3 budget as the Board approved a budget, applicable to USAID funds, that the Mission had not reviewed prior to the June, 2010 Board meeting.

Planned Actions:

AUAF administration and its Board of Trustees have agreed to the following process for Year 4 of the agreement:

- AUAF will submit budget priorities for the upcoming AUAF fiscal year to USAID in January, 2011. USAID will negotiate an initial approval.
- The Finance Committee of the AUAF Board of Trustees, which meets frequently during the year, will review this initial approval and work with AUAF's administration to resolve any issues regarding USAID funding for the upcoming year.
- A discussion draft of the budget, work plan, and revised PMP (if necessary) will be submitted to USAID by March 31, 2011. USAID will provide a second-level concurrence by April 30, 2011.
- The AUAF Board of Trustees will review the University-wide budget in May 2011, either at its scheduled Kabul meeting or through an alternate process should the May 2011 Board meeting be cancelled or postponed. It is expected that the budget presented to the full Board will have received Finance Committee approval.
- The final Year 4 program budget, work plan, and revised PMP (if necessary) will be submitted to USAID by June 15, 2011 for final approval.

AUAF will undertake a five-year strategic planning process in September 2010, and will submit a draft to its Board of Trustees in January 2011. The January 2011 date to submit budget priorities to USAID will link its funding request to its strategic plan.

The AUAF cooperative agreement will be modified to reflect this new budget approval process, thereby removing the October 30 approval date. Target date for finalizing the modification is December 15, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 3: We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish procedures for timely submission of the annually revised work plan and performance monitoring plan.

The Mission agrees with this recommendation.

Planned Actions:

Please refer to the process outlined under Recommendation No. 2, above. AUAF will submit its draft annual work plan and revised PMP (if necessary) by March 31, 2011, along with the discussion draft of its annual budget.

The AUAF cooperative agreement will be modified by December 15, 2010, to reflect this new budget, work plan, and PMP approval process.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 4: We recommend that USAID/Afghanistan decide how excess funds of \$6.4 million from Year 1 and 2 are to be used, either within the agreement or for other mission programs.

The Mission agrees with this recommendation.

It should be noted that although the cooperative agreement was signed on August 8, 2008, AUAF did not draw down funds under the award until December 1, 2008. This occurred because AUAF was funded through a subgrant from The Asia Foundation through November 30, 2008. As of June 30, 2010, AUAF expended \$12.75 million of USAID funds against \$19.1 million in the notional five-year program budget for the same period and approved at the time of award, leaving nearly \$6.4 million of excess Years 1 and 2 funding.

Action Taken:

The Mission has decided that excess funds in the amount of nearly \$6.4 million from Years 1 and 2 will remain in the cooperative agreement and will be re-programmed into Years 3-5 to fund activities intended in the existing award.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence to its resolution and closure.

Recommendation No. 5: We recommend that USAID/Afghanistan provide consent to subcontract for the security follow-on contract and any other subcontracts entered into by the American University of Afghanistan with mission funds, until such time as the budget is submitted and approved by the mission.

The Mission agrees with this recommendation.

Planned Actions:

The Mission will provide consent to subcontract starting with the Year 3 budget submission. The contract for security services will not be funded with Mission funds for Year 3 as AUAF has allocated security costs to its annual cost share budget. With the Year 3 budget review, further information was requested on the procurement method followed for procurement of Internet services for the University and for other large procurements. In consultation with the AOTR, OAA will provide consent to subcontract for all Firm Fixed Price Contracts above \$100,000 and for all cost reimbursement contracts under the AUAF cooperative agreement funded with mission funds.

The AUAF cooperative agreement will be modified to reflect OAA's role in approving subcontracts under the award. The target date for finalizing the modification is December 15, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 6: We recommend that USAID/Afghanistan prepare a sustainability plan—so that by the end of the agreement the American University of Afghanistan will no longer be dependent on mission funds—and incorporate this plan into the agreement, work plan, budget, and performance monitoring plan.

The Mission partially agrees with this recommendation.

Planned Actions:

AUAF will undertake a five-year strategic planning process in September 2010, and will submit a draft to its Board of Trustees in January 2011. Approval of the final plan is expected at the March 2011 Board meeting.

Sustainability will be addressed in the plan which will include notional budget scenarios for the period 2011-2016. Fundraising targets, projected tuition and fees income, and projected net income from the Professional Development Institute for the five-year period will be set for each out year of the strategic plan. One of the planning scenarios will include a cessation of USAID funding as of June 2013.

By December 2010, USAID will review the status of the strategic planning process and budget scenarios to assess the impact of cessation of USAID's investment in AUAF in 2013 and the reasonableness of other income projections. Given the USG's overarching commitment to supporting the concept of a U.S.-style university in Afghanistan it is possible that the Mission will deem it strategically important to continue support.

A final determination on any possible USAID support to AUAF beyond the current grant period will be made by the Mission by June 2011.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 7: We recommend that USAID/Afghanistan work with the American University of Afghanistan to develop a construction implementation plan for its new campus and update the agreement, budget, and work plan in accordance with the plan.

The Mission partially agrees with this recommendation.

Actions Taken:

While limited construction-related activities for the new campus are included in the cooperative agreement, the AUAF Administration has determined that USAID funds will not be used for new campus construction activities from Year 3 onward. There is one exception to this in Year 3, as AUAF has hired a construction manager whose salary and benefits will be charged to AUAF cost share. Therefore, USAID will not approve any further new campus construction activities for the remainder of the cooperative agreement period.

The AUAF cooperative agreement will be modified to reflect this decision taken by the AUAF Administration and agreed to by USAID. The target date for finalizing the modification is December 15, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 8: We recommend that USAID/Afghanistan develop an implementation plan with American University of Afghanistan to complete the 4-year curriculum for the three undergraduate degrees offered (bachelors of science in information technology and computer science, bachelors of business administration, and bachelors of arts in general studies) by spring 2011 and incorporate this implementation plan into the annual work plan, budget, and performance management plan.

The Mission agrees with this recommendation.

Actions Taken:

After the arrival of the new leadership team in late 2009, AUAF conducted an extensive review of its undergraduate program offerings, and several revisions were made to ensure that AUAF's program aligned with market demand for university graduates in both the public and private sectors. As a result, the General Studies degree is being phase out. The reformulated degree programs are as follows: B.A. in Business Administration, B.S. in Computer Science, and B.A. in Political Science and Public Administration. Curricula have been developed and are included in the AUAF Course Catalog for the academic year 2010-11 and have been incorporated into the AUAF budget, work plan, and draft PMP. Relevant excerpts from the catalog are shown in Attachment 1.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests its closure.

Recommendation No. 9: We recommend that USAID/Afghanistan require the American University of Afghanistan to develop a business plan for the Professional Development Institute program and incorporate this plan into the American University of Afghanistan's annual budget, work plan, and performance monitoring plan.

The Mission agrees with this recommendation.

Planned Actions:

AUAF's strategic plan for 2011-2016 will include a five-year plan for the Professional Development Institute (PDI) along with projections for net income to be earned from PDI operations. Since PDI is a start-up operation, its market is still under development, so the strategic plan will include critical assumptions that must occur in order for the PDI to become profitable enough to make a substantial financial contribution to the overall University operations budget.

AUAF will submit a business plan for PDI to USAID by January 31, 2011 and will incorporate this plan into the Year 4 annual work plan, budget and PMP by April 30, 2011.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 10: We recommend that USAID/Afghanistan revise the list of key personnel to be approved by the agreement officer's technical representative in the cooperative agreement to include the position of business manager for the Professional Development Institute.

The Mission partially agrees with this recommendation.

Actions Taken/Planned:

The Professional Development Institute holds great potential as a quality training institute and as a source of revenue for AUAF to increase its financial independence from USAID. For these reasons, PDI will remain within the USAID-AUAF program, principally as part of AUAF's cost share to the overall program. USAID views the qualifications of senior-level PDI staff as crucial to its success and will consider adding the PDI Director or a PDI Business Manager as Key Personnel for the program.

PDI staffing requirements will be identified during the development of the PDI business plan. At that time, USAID and AUAF will discuss the position description of the PDI Director or the need to add a PDI Business Manager. AUAF and USAID expect to reach a resolution on this matter by March 31, 2011.

Should the discussions determine the need for a PDI Business Manager or a revised position description of the PDI Director, the AUAF cooperative agreement will be modified by May 31, 2011, to reflect this potential new Key Personnel position.

Given this situation, the Mission requests that RIG consider a revision of the recommendation to state that USAID/Afghanistan work with AUAF in determining the need for a PDI Business Manager or a revised position description for the PDI Director and if necessary, revise the list of key personnel for AO approval. The Mission also requests RIG's concurrence that the Mission's planned actions are adequate to address the audit issue.

Recommendation No. 11: We recommend that USAID/Afghanistan develop an implementation plan with the American University of Afghanistan for the Professional Development Institute to require quality standards that address issues such as attendance requirements. This implementation plan should be reflected in the annual work plan, budget, and performance monitoring plan.

The Mission agrees with this recommendation.

Planned Actions:

The AUAF draft PMP will be revised to include learning achievement indicators where practical as well as other quality standards such as attendance requirements. The target date for approval of AUAF's first PMP is October 15, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 12: We recommend that USAID/Afghanistan require that the action plan developed by the American University of Afghanistan to increase the proportion of women enrolled at the university be incorporated into its annual work plan, budget, and performance monitoring plan.

The Mission agrees with this recommendation.

Actions Taken/Planned:

AUAF has incorporated its recruitment plans into its draft work plan for 2010-2011. Targets for the next three years have been set. In addition, AUAF will submit a formal action plan for recruitment of female students to USAID by September 25, 2010 so that it can be compared to the 2010-11 work plan and budget. Final USAID approval will be completed by October 31, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 13: We recommend that USAID/Afghanistan develop an implementation plan with the American University of Afghanistan for the Foundation Studies Program to include completion of the curriculum by fall 2010, and development of quality standards to assess program graduates' ability to succeed in the undergraduate program. This implementation plan should be reflected in the annual work plan, budget, and performance monitoring plan.

The Mission agrees with this recommendation.

Actions Taken/Planned:

After the arrival of the new leadership team in late 2009, AUAF conducted an extensive review of the Foundation Studies Program (FSP), and several revisions were made to ensure that FSP graduates would be better equipped to succeed in the undergraduate program. An enhanced focus on English language acquisition is being introduced, and less focus is being placed on mathematics and other skills. A new FSP curriculum is being piloted in the Fall 2010 semester with the following key features:

- Standardized number of instructional hours between the day and evening FSP programs.
- Improved student assessment systems for graduation from FSP, including a higher score on TOEFL (510 as compared to 500 previously), and additional English writing assessments.
- Minimum qualification of a graduate degree in Teaching English to Speakers of Other Languages (TESOL) for all FSP instructors.
- New writing and math placement tests for entry into the undergraduate program. Those FSP completers who do not meet minimum standards may be placed in remedial courses while undertaking limited undergraduate study

The full re-design of the FSP curriculum will be completed by AUAF by November 15, 2010 and is reflected in the AUAF budget, work plan, and PMP.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 14: We recommend that USAID/Afghanistan's Office of Acquisition and Assistance perform the semiannual review of the American University of Afghanistan's procurement system as required by the agreement until such time as it certifies their system.

The Mission agrees with this recommendation.

Planned Actions:

The USAID/Afghanistan Office of Acquisition and Assistance will proceed as follows:

- A review of AUAF's procurement systems will take place in October, 2010.
- A brief report outlining areas for improvement will be issued by November 30, 2010.
- By December 15, 2010 AUAF will develop a plan to outline remedial actions that will be taken to address issues arising from the OAA review.
- By March 31, 2011 (nine months after AUAF's fiscal year end of June 30, 2010) AUAF's annual Recipient-Contracted Audit (RCA) of AUAF's fiscal year 2009-10 will be finalized and may identify additional areas for improvement.
- A follow-up procurement review will take place in April, 2011 at which point any outstanding issues identified in the RCA and from the October 2010 review will be addressed.

Should any remaining issues be identified, AUAF's plans to address them will be included in the work plan for the AUAF academic year 2011-2012 (Year 4). As stated above in Recommendation No. 2, the draft work plan will be submitted in April, 2011 and a final version in June, 2011. OAA will participate in the work plan review to ensure that any OAA recommendations are addressed.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 15: We recommend that USAID/Afghanistan review all construction procurement files before approving the subcontracts and verify that adequate competition existed during the bidding process.

The Mission partially agrees with this recommendation.

The Mission defines the term "construction", used herein, as renovations of **existing AUAF buildings and rental properties** and not as construction on the new campus. The Mission also understands that this review will take place for the Year 3 budget and onwards.

Planned Actions:

USAID's Office of Acquisition and Assistance will review only those procurements that are 1) funded in whole or in part with USAID funds, and 2) are greater than \$100,000 in

value as well as all cost-reimbursement contracts. The Mission proposes the following process:

- By September 30, 2010, AUAF will submit a procurement plan to USAID for construction activities to be funded in whole or in part by USAID and undertaken in Year 3. The procurement plan will outline the processes for selection of subcontractors.
- USAID will review these planned procurements as part of the Year 3 budget approval, to be completed by September 30, 2010, to flag where AUAF will be requesting consent to subcontract from the Agreement Officer.
- AUAF understands that no contracts can be signed, and no work can begin on construction or renovation projects using USAID funds and meeting the thresholds described above, until formal consent to subcontract has been granted by the Agreement Officer. Consent to subcontract will only be granted after verification that adequate competition existed in the procurement process.
- Should AUAF fail to submit the required documentation in a timely manner, the Mission will process a cash advance request for AUAF salaries only for November 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 16: We recommend that USAID/Afghanistan evaluate the American University of Afghanistan's May 2010 revised branding and marking plan and make a determination as to the acceptability of the plan.

The Mission agrees with this recommendation.

Actions Taken/Planned:

AUAF's May 2010 draft Branding and Marking Plan was reviewed by the Mission in June, 2010 and was deemed unacceptable by the Mission due to excessive requests for exemptions from marking requirements. A second draft of AUAF's proposed Branding and Marking Plan was submitted in July 2010 and included limited marking of items purchased with USAID funds. Furthermore, anecdotal evidence indicates that AUAF beneficiaries do not clearly understand the type of support that USAID provides to the University.

The Mission anticipates the need to review AUAF's requests for partial exemption from marking requirements for certain items. The Mission will have a final, approved Branding and Marking Plan in place for AUAF by October 31, 2010.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 17: We recommend that USAID/Afghanistan work with the American University of Afghanistan to establish procedures for the submission of the required environmental mitigation and monitoring plans for new construction.

The Mission agrees with this recommendation.

The Mission defines the term “construction”, used herein, as renovations of **existing AUAF buildings and rental properties** and not as construction on the new campus. The Mission also understands that this review will take place for the Year 3 budget and onwards.

The AUAF cooperative agreement further states that an Environmental Mitigation and Monitoring Plan (EMMP) is a required deliverable under the terms of the award.

In Year 3 AUAF plans to undertake a number of renovations to campus buildings and to residential rental property using USAID funds. No new construction will be undertaken with USAID funds.

Planned Actions:

The Mission will address this issue as follows for Year 3:

- By October 30, 2010, AUAF will submit an EMMP to USAID for approval for all building renovation to occur from July 1, 2010 through June 30, 2011.
- AUAF understands that no construction or renovation work can begin until AOTR clearance is granted on construction or renovation projects using USAID funds beginning on October 1 and onwards until an EMMP is approved by the Mission.

The target date for final Mission approval of the EMMP is November 30, 2010. Should AUAF fail to submit the required documentation in a timely manner, the Mission will process a January 2011 cash advance request for AUAF staff salaries only.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence.

Recommendation No. 18: We recommend that USAID/Afghanistan obtain a written legal decision from its Regional Legal Advisor on how to proceed for completed and in-process projects in which environmental procedures were not followed.

The Mission agrees with this recommendation.

Actions Taken:

The Mission's Regional Legal Advisor has agreed to the proposed process outlined below per attached email shown in Attachment 2:

- 1) On-going projects (wholly or partially funded by USAID)
 - By September 30, 2010 AUAF will submit a list of all ongoing projects and the environmental procedures that are being followed for each project.
 - The AOTR will work with the Mission's Environment Officer (MEO) to review the proposed environmental mitigation actions, and identify any issues. The AOTR will provide final clearance when all issues are addressed.

- 2) Completed projects (wholly or partially funded by USAID)
 - AUAF will submit a list of all completed projects by October 30, 2010 along with a report certifying that there are no negative impacts on the environment from the completed construction and renovation activities. This report shall explain what mitigating measures were put in place to ensure compliance. If there were problems, AUAF will describe what corrective measures were taken.
 - The Mission's Environment Officer will review each project to determine if there are outstanding environmental concerns that must be addressed.
 - If necessary, an action plan will be developed by AUAF, to be cleared by the MEO and approved by the AOTR. This action plan will be incorporated into the AUAF Year 3 work plan.

The target date for the action plan, if necessary, to be submitted to USAID is November 15, 2010. AUAF will then submit a revised annual work plan, and will implement the action plan by May 31, 2011.

Based on the above, the Mission deems that a management decision has been reached on this audit recommendation and requests your concurrence to its resolution and closure.

Attachments:

- 1—AUAF Course Catalog 2010-11
- 2—Environmental compliance decision from Mission Regional Legal Advisor

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