

USAID's Kabul Community Development Program Largely Met the Agreement's Terms, But Progress Toward Long-Term Goals Needs to be Better Tracked



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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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The Honorable Rajiv Shah
Administrator, U.S. Agency for International Development

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This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of a cooperative agreement between the U.S. Agency for International Development (USAID) and CARE International to provide food assistance relief using cash-for-work opportunities to qualified beneficiaries through the Community Development Program-Kabul (CDP-K). This report includes four recommendations to the USAID Mission Director to Afghanistan to help track progress toward long-term program goals, potentially recoup certain expenses from CARE, and address certain procedural deficiencies with regards to CARE's internal controls over cash disbursements.

A summary of this report is on page ii. SIGAR conducted this performance audit under the authority of Public Law No. 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008. When preparing the final report, we considered comments from USAID which are reproduced in appendix III of this report. USAID concurred with our recommendations and noted a range of actions they plan to take.

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SIGAR

Special Inspector General for Afghanistan Reconstruction

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What SIGAR Reviewed

Due to concerns about the possibility of riots over food shortages, the U.S. Agency for International Development (USAID) awarded a cooperative agreement to CARE International in March 2009 to provide cash-for-work to qualified beneficiaries in the Kabul area through a number of small scale projects. The first phase of the Community Development Program-Kabul (CDP-K) was scheduled to last until March 2010, reach a target beneficiary population of 50,000, and cost a total of \$25 million. USAID modified the cooperative agreement in March 2010 to extend the performance for a second phase until September 2011, expand the number of target beneficiaries to 78,000, and increase total funding to \$60 million. USAID also expanded the program's goals to, in part, fund long-term projects aimed at improving living and working conditions for target communities. This report assesses (1) the processes and procedures USAID followed to award this cooperative agreement; (2) whether it is being implemented within the cost, schedule, and outcome terms of the agreement; and (3) the implementation of internal controls over cash disbursements. To accomplish these objectives, we reviewed the cooperative agreement, associated implementation and monitoring documents, and internal controls documentation relating to the cash disbursement process. We interviewed officials from USAID, USAID's third-party oversight support contractor and CARE. We also visited two project sites to observe the cash distribution process and reviewed related project files covering a 3-month performance period. We conducted our work in Kabul, Afghanistan, from August 2010 to May 2011, in accordance with generally accepted government auditing standards.

What SIGAR Found

USAID followed agency procedures in its decision to award a cooperative agreement on a non-competitive basis to implement CDP-K. USAID sought to mitigate the risks of fraud, waste, and abuse that are inherent in cash-for-work projects, by providing additional oversights of the projects required for cooperative agreements. SIGAR's analysis indicates that USAID followed its procedures in using a cooperative agreement, rather than a grant. In addition, USAID adhered to requirements in documenting the award and expansion of the program on a non-competitive basis.

CARE largely complied with the schedule, cost, and outcome terms under the first phase of the cooperative agreement and appears to be on track to meet the terms established for the second phase. However, CARE failed to complete certain required studies, such as the impact the program had on food prices in the market, under both phases of the agreement. These studies could have provided additional insights to guide project implementation and assess the project's impact. CARE largely met key numerical performance goals for the agreement under both phases. However, USAID failed to incorporate other program goals such as creating projects with long-term economic impact into phase two of the agreement when it had become clear to both USAID and CARE officials that a shift in program focus had occurred. As a result, there has been no reporting on the program's success in achieving these long-term goals. The lack of formal agreement on such long-term goals increases the risk that project activities will not have the intended impact beyond just the distribution of cash to target beneficiaries.

CARE's cash disbursement process provides numerous checks and balances designed to prevent inappropriate disbursements. For example, all cash disbursement are overseen by a committee of four and workers only receive payment after showing a CARE-created photo identification. In addition, CARE established a 40 -person unit to visit work sites to monitor the implementation of its internal controls process. USAID also contracted with A.F. Ferguson to provide third party monitoring and evaluation services, including assessments of the cash disbursement process. This company found that although CARE has a reasonable assurance that project funds are only distributed to eligible beneficiaries, CARE needs to improve its internal controls over the cash disbursement process to address limited irregularities.

What SIGAR Recommends

To ensure that the program's broader objectives are achieved and appropriate oversight of program funds is provided, this report includes four recommendations to the USAID Mission Director to Afghanistan relating to the need to track progress toward long-term program goals, recoup certain program expenses, and address certain procedural deficiencies with regards to CARE's internal controls over cash disbursements. USAID concurred with SIGAR's recommendations and noted a range of actions they plan to take.

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ACRONYMS

ADS	Automated Directives System
AO	Agreement Officer
AOTR	Agreement Officer's Technical Representative
CARE	CARE International
CDP-K	Community Development Program-Kabul
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	U.S. Agency for International Development



USAID's Kabul Community Development Program Largely Met the Agreement's Terms, But Progress Toward Long-Term Goals Needs to be Better Tracked

In March 2009, the U.S. Agency for International Development (USAID) initiated a cash-for-work program—the Community Development Program-Kabul (CDP-K)—to help alleviate food insecurity among distressed populations in and around Kabul.¹ USAID awarded a non-competitive cooperative agreement to CARE International (CARE) that was initially scheduled to run from March 2009 to March 2010 (phase one of the project).² In March 2010, USAID modified the cooperative agreement (phase two of the project) to extend the performance period to September 2011 and increase funding from \$25 million to \$60 million. According to USAID, it extended and modified the project for two reasons. First, the U.S. government had continuing concerns about potential political instability resulting from food insecurity. Second, USAID sought to fund cash-for-work projects that would better serve U.S. strategic goals by having a sustainable impact on the local economy.

It is estimated that just over \$20 million will be paid out as salaries to cash-for-work beneficiaries by the end of the second phase of the agreement.³ We conducted this audit, in part, due to the high-risk nature of cash-for-work programs if appropriate controls to deter fraud, waste, and abuse are not in place. A recent management letter from the USAID Office of the Inspector General to the Mission Director in Kabul highlights the increased risk associated with cash disbursements.⁴

This report assesses (1) the processes and procedures USAID followed to award this cooperative agreement; (2) whether it was being implemented within the schedule, cost, and outcome terms of the agreement; and (3) the implementation of internal controls over cash disbursements.

To accomplish these objectives, we reviewed the cooperative agreement, associated implementation and monitoring documents, and internal controls documentation relating to the cash disbursement process. We also visited two project sites to observe the cash distribution and monitoring process and reviewed related district project files covering a 3-month performance period. We interviewed officials from USAID, CARE, and A.F. Ferguson—a contractor hired by USAID to provide additional program

¹ Originally titled the Food Insecurity Response for Urban Populations-Kabul (FIRUP-K) program, the program's title was later changed to Community Development Program-Kabul (CDP-K) at the U.S. Ambassador's direction to reflect the program's expanded focus under phase two of the program's implementation.

² For purposes of this report, we refer to the initial award period as "phase one" and to the extended award period as "phase two."

³ Under both the original cooperative agreement and the phase two modification, USAID stipulated that CARE must spend approximately 68 and 63 percent, respectively, of the budget on "project activities" consisting of beneficiary's salaries and the cost of project materials and supplies.

⁴ See Review of Cash Disbursement Practices of Selected USAID/Afghanistan Implementing Partners, USAID Office of the Inspector General Report, No. F-306-11-002-S, March 7, 2011. Risks associated with cash disbursements were also highlighted in April 2010 Audit of USAID/Afghanistan's Afghanistan Vouchers for Increased Productive Agriculture (AVIPA) Program conducted by the USAID Office of Inspector General. See Audit of USAID/Afghanistan's Afghanistan Vouchers for Increased Productive Agriculture (AVIPA) Program, USAID Office of the Inspector General, Audit Report No. 5-306-10-008-P, April 20, 2010.

oversight of all CDP programs in Afghanistan. We conducted our work in Kabul, Afghanistan, from August 2010 to May 2011, in accordance with generally accepted government auditing standards.

BACKGROUND

CDP-K operates in 16 urban districts and 11 suburban areas around Kabul. Under phase one from March 2009 through March 2010, CARE hired needy Afghan citizens (identified through a consultative process involving the communities, government authorities, and project staff) to work on small-scale projects such as ditch drainage construction, road surfacing and gravelling, canal cleaning, and cleaning the Kabul River. Under phase two of the program-- from March 2010 through September 2011—USAID expanded the program’s goals to include larger projects aimed at providing an economic benefit to the entire community. These projects included the construction of permanent culverts to divert flood water that can cause serious damage to a community’s infrastructure. Phase Two also extended the program beyond Kabul’s urban districts to suburban areas to help prevent poor workers from migrating to Kabul’s overcrowded center.

Photos 1 and 2 provide views of two cash-for-work projects in Kabul. Photo 1 illustrates the small-scale projects funded in phase one of the program. Photo 2 provides an example of the larger, more sustainable projects in phase two.

Photo 1: Canal Cleaning in Mibarchakot District, Kabul



Source: CARE’s Quarterly Report, September – December 2009

Photo 2: Big Canal Construction after Completion in Kabul Municipality



Source: CARE, January, 2011.

As shown in table 1, USAID modified the cooperative agreement five times. Modification 2 provided the basis for phase two, which increased time, costs, and the target number of beneficiary households (from 50,000 to 78,000). Through March 31, 2011, CARE had disbursed nearly \$46 million of the \$60 million authorized for this agreement.

Table 1: Base Award and Modifications to USAID Cooperative Agreement No: A-00-09-00510

Modification	Date	Purpose	Cost and Schedule Changes
Base Award	March 8, 2009	Provided funding for the Food Insecurity Response for Urban Populations-Kabul program (FIRUP-K). ^a	\$25,000,000
Modification 1	March 11, 2009	Revised approval of the recipient's implementation plans.	No Change
Modification 2	March 1, 2010	Expanded the program's scope.	Increased cost by \$35,000,000 (\$25,000,000 to \$60,000,000). Extended performance period by 18 months, from March 2010 to September, 2011. Total number of expected beneficiary households increased from 50,000 to 78,000.
Modification 3	June 5, 2010	Incrementally funded the agreement by \$6,000,000 – from \$25,000,000 to \$31,000,000.	No Change
Modification 4	August 10, 2010	Incrementally funded the agreement by \$20,000,000 - \$31,000,000 to \$51,000,000.	No Change
Modification 5	September 16, 2010	Changed name of program to "Community Development Program-Kabul."	No Change

Source: SIGAR analysis of USAID Kabul Mission data.

Note: ^a Original title of the CDP-K program.

USAID's Agreement Officer (AO), located in the Office of Acquisitions and Assistance in Embassy Kabul, is responsible for ensuring that appropriate award procedures, key approvals, and any modifications to the cooperative agreement are properly implemented. As noted by one of the AO's for this cooperative agreement, the AO designates an Agreement Officer's Technical Representative (AOTR), located in the relevant program office in Embassy Kabul, to provide on-going contact with the award recipient, review filed progress and status reports, and inspect project activities. According to one of the cooperative agreement's AOTRs, because cash-for-work programs potentially pose an increased risk for fraud, USAID contracted a third party, A.F. Ferguson to monitor and evaluate program implementation.⁵

CARE is responsible for the program's day-to-day operations and has a dedicated office that manages and oversees the program. This office includes a chief of party, a deputy chief of party, a program manager, district supervisors, a field supervisor, and field officers. CARE also established an independent monitoring and evaluation unit staffed with 40 individuals to monitor implementation of the program's

⁵ In June 2009, USAID contracted with A.F. Ferguson, a Pakistani accounting firm and member firm of PricewaterhouseCoopers, to conduct a monitoring and evaluation program over the four USAID-funded CDP programs throughout Afghanistan. The cost-plus-fixed-fee contract was originally scheduled to run from June 2009 to March 2010 at a cost of about \$477,000. However, the contract was modified in March 2010, to extend it until March 2011, and the cost increased to more than \$1.5 million.

internal controls, particularly controls over the cash disbursement process. In total, CARE's CDP-K staff has grown to about 370 individuals comprised of largely local Afghan hires.

USAID FOLLOWED PROCEDURES IN SELECTION AND AWARD OF NON-COMPETITIVE COOPERATIVE AGREEMENT FOR CDP-K

In compliance with agency guidelines and documentation standards, USAID chose to award a cooperative agreement on a non-competitive basis to implement the CDP-K program. The program's purpose falls within the definition of when a cooperative agreement should be used. USAID's award of the CDP-K program on a non-competitive basis to CARE International also adhered to U.S. Afghan mission award criteria and procedures which permit the expedited award of acquisition and assistance instruments under certain circumstances.

Use of a Cooperative Agreement Was Consistent with Agency Procedures

We found that USAID followed agency procedures in awarding a cooperative agreement--rather than a contract or grant—to CARE to implement CDP-K. A grant or cooperative agreement is used when the principal purpose of the transaction is to accomplish a public purpose of support or stimulation, as authorized by the Foreign Assistance Act of 1961.⁶ The statutory requirement for choosing a cooperative agreement over a grant is that, under a cooperative agreement, "substantial involvement" is expected between the executive agency and the awardee when carrying out the activity contemplated in the agreement. USAID regulations require that the AO document the selection of an implementing instrument with his or her written determination, including the rationale. In a negotiation memorandum dated March 11, 2009, the AO documented the basis for selecting a cooperative agreement including the need to be substantially involved in the agreement's implementation. According to USAID officials, the agency needed to be substantially involved in the oversight of this cash-for-work program given inherent concerns about the potential for fraud, waste, and abuse.

USAID Followed Agency Procedures in Selecting Non-Competitive Award

USAID complied with agency requirements to document its decision to award the CDP-K cooperative agreement on a non-competitive basis. OMB and agency guidance stresses the need to award acquisition and assistance instruments on a competitive basis unless circumstances dictate the need for a non-competitive award. Under normal USAID procedures,⁷ the mission is required to seek applications from all eligible and qualified entities, conduct an impartial review and evaluation of all applications, and make a recommendation to the AO for award.

In 2002, the then USAID Administrator approved a series of waivers to permit the use of non-competitive award procedures in Afghanistan.⁸ According to the policy, USAID may use a non-competitive award process if the USAID Mission Director agrees that certain emergency conditions exist that could threaten U.S. strategic interests if not addressed in an expedited fashion. The policy requires

⁶ The Foreign Assistance Act of 1961, as amended.

⁷ See USAID's Automated Directives System (ADS), Chapter 303 Grants and Cooperative Agreements to Non-Governmental Organizations.

⁸ On February 15, 2002, USAID's Administrator approved a blanket waiver that permits the use of expedited acquisition and assistance procedures for the procurement of goods and services for activities in Afghanistan. This policy has been subject to annual reviews to determine its continued relevance and the need for any modifications.

that USAID document the use of a non-competitive award in the award file. On December 30, 2008, USAID's acting program office director requested the acting USAID Mission Director's approval to use waiver authority to award the CDP-K cooperative agreement to CARE International on a non-competitive basis. The memorandum noted that food costs in Afghanistan had increased by as much as 300 percent, and that this, combined with a lack of income-generating opportunities, could lead to instability in urban centers. The memo cited the government of Afghanistan's fear that a humanitarian crisis was imminent, with more than 1.5 million people at acute risk of malnutrition. According to documentation in the file, the acting USAID Mission Director approved the use of the non-competitive award on January 4, 2009.

Non-Competitive Extension Adhered to Agency Justification and Documentation Requirements

Using the Afghan waiver policy, USAID extended and expanded the CDP-K cooperative agreement in March 2010 on a non-competitive basis. Agency guidance allows non-competitive award extensions if the benefits exceed the benefits of a competitive process. The extension of a non-competitive award under normal USAID procedures requires a number of administrative steps.⁹ In particular, USAID regulations require that the agency justify in writing and with specificity why the benefits of continuing the assistance activity with the same recipient exceeds the benefits of a competitive process favored by federal law and agency policy. According to USAID officials, this decision potentially eliminated months in additional clearance reviews. The normal process for non-competitive follow-on awards in excess of \$5 million requires that USAID's General Counsel or Regional Legal Advisor review all justifications that support non-competitive procurement. In contrast, the waiver policy in Afghanistan allows up to a 2-year non-competitive extension of an existing cooperative agreement without these additional administrative steps if conditions prevailing at the outset of the cooperative agreement continue.

On December 21, 2009, USAID's program staff sought approval from USAID's Mission Director to extend the program to September 2011 and increase funding from \$25 million to \$60 million. Citing a continuing food crisis in the Kabul area, the memo stated that the program would continue to link vulnerable population centers at risk of acute food insecurity with income-producing programs that allow target beneficiaries to purchase food as needed. The memo also states that the extended program would support some very important urban development programs which would serve to promote local stability and development objectives. According to documentation in the award file, the USAID Mission Director approved the extension on December 23, 2009.

REQUIREMENTS FOR CDP-K'S FIRST AND SECOND PHASES WERE LARGELY MET, BUT PROGRESS TOWARD LONG-TERM GOALS IN SECOND PHASE IS UNCLEAR

CARE largely complied with the schedule, cost, and outcome terms of the cooperative agreement under phase one and phase two in terms of the program's top-level numerical goals, which include the target number of beneficiaries, cash disbursed, and total days worked. USAID failed, however, to incorporate other phase two program objectives, such as creating projects that would have a long-term economic impact, even though it had become clear to both USAID and CARE officials that a partial shift in program focus had occurred. Moreover, USAID officials did not require CARE to adhere to the specific construction targets described in the cooperative agreement because CARE obtained a better understanding of community needs during program implementation and expanded the range of funded projects to adjust to these needs. USAID did, however, coordinate with CARE to ensure that only approved categories of projects were implemented and the agency hired A.F. Ferguson to provide

⁹ See ADS Chapter 303.3.6.6 (Justifications for Exceptions to Competition).

on-site verification to ensure that projects were completed as intended. Finally, we found that CARE failed to complete certain required studies under both phase one and two of the agreement.

Key Phase One Results Were Largely Achieved, But Certain Deliverables Were Not Provided

USAID broke the program down into four objectives with associated performance targets and expectations.¹⁰ These four objectives were (1) provide cash-for-work opportunities, (2) increase involvement of women in short term income generating activities, (3) improve the understanding of the causes and effects of food insecurity and the impact of project activities on food prices, and (4) coordinate and collaborate with stakeholders.¹¹ The key numerical targets for the cooperative agreement are listed under the first objective and include (1) number of beneficiaries reached, (2) amount of cash disbursed, and (3) number of days worked. Given the cash-for-work nature of the cooperative agreement, USAID officials noted that they focused on CARE's ability to meet these numerical goals. USAID officials stated that their other key focus was to ensure that funded projects were actually completed and used A.F. Ferguson to provide on-site, third-party monitoring to verify that projects were completed as described in CARE's quarterly reports to USAID.

For phase one of the cooperative agreement, CARE reported that it largely met its numerical performance targets under objectives one and two with regards to the number of beneficiaries, amount of cash disbursed, number of days worked, and number of female beneficiaries. Objectives three and four were only partially met since CARE failed to complete certain required studies, including a market analysis of the impact of its projects on food prices, an analysis of gender sensitive programming, and a stakeholder analysis. Table 2 provides a summary of phase one results.

Table 2: Phase One Results for CDP-K Program (March 15, 2009 to March 15, 2010)

Objective	Goals	Reported Results
Provide CFW opportunities		
Number of beneficiaries	50,035	49,207
Project activity spending (salaries and cost of materials)	\$16.9 million	\$11.9 million
Days worked	1.9 million	1.4 million

¹⁰ SIGAR organized the eight performance categories listed in the original cooperative agreement into four related categories of activities which CARE also uses to provide its quarterly performance results to USAID.

¹¹ CARE chose to allocate the cooperative agreements' budget across these four objectives. USAID officials noted, however, that CARE did this on its own initiative and for internal tracking purposes. USAID officials explained that they only track CARE's top-level budget and the line items (such as salaries and project activities) which make up this budget. CARE must provide USAID with quarterly reports showing total spending figures and must track internally that spending on any given line item does not fall below or exceed stipulated percentage limits.

Objective	Goals	Reported Results
Project category results	The base cooperative agreement includes a number of specific goals broken down by the following project categories: - ditch drainage construction, - road surfacing and graveling, - canal cleaning, - vineyard and orchard ploughing, - tree planting. All project categories included targets for days worked, number of beneficiaries, and wages disbursed targets. Construction/production targets were stated in kilometers, number of hectares, and trees planted were also specified where appropriate.	Appendix II, Table I provides details on project results by project category through March 15, 2010. At USAID's request, CARE added eight project categories (such as a park rehabilitation and digging water wells) to the five included in the cooperative agreement. USAID officials noted that they chose not to update project category specific performance targets since their focus was on the top-level indicators listed above.
Increase involvement of woman in short term income generating activities		
Number of beneficiaries who are female	11,079	10,027
Identify woman beneficiaries for inclusion in cash for work opportunities.	As stated.	No measureable goals set.
Identify gender sensitive tasks for woman beneficiaries.	As stated.	No measureable goals set.
Ensure involvement of woman in decision making processes on projects.	As stated.	No measureable goals set.
Conduct an analysis for gender sensitive programming	As stated.	Assessment not conducted
Improve the understanding of the causes and effects of food insecurity and impact of project activities on food prices.		
Conduct assesment to verify the appropriateness of proposed cash for work interventions	As stated.	CARE conducted Consumption Strategy Index studies in September 2009 and February 2010. The Consumption Strategy Index, developed by CARE and the World Food Program, measures household-level changes in response to food shortages.
Conduct market analysis to understand the impact of project intervention on food prices in the market	As stated.	Assessment not conducted

Objective	Goals	Reported Results
Coordinate and collaborate with stakeholders.		
Conduct a stakeholder analysis	The project will conduct a rapid stakeholder analysis at the start of the project to ensure agreement on planned initiatives.	Stakeholder analysis not conducted.
Involve Kabul Municipality, Ministry of Agriculture, and Ministry of Woman's Affairs	Develop memorandums of understanding with target ministries to guide coordination and collaboration terms and mechanisms.	Memorandums of understanding signed with the Kabul Municipality, Ministry of Agriculture, Irrigation, and Land; and the Ministry of Woman's Affairs.

Source: March 7, 2009 cooperative agreement with CARE and CARE's 4th quarterly & end of year 1 report to USAID (March 15, 2009-March 15, 2010).

Phase Two Results Did Not Include Reported Progress Toward Longer-Term Goals

For phase two of the cooperative agreement, CARE reported that it is on track to meet its September 15, 2011 end-of-agreement numerical targets with regards to number of beneficiaries, amount of cash disbursed, and number of days worked. We found that CARE and USAID failed to conduct a market analysis of the impact of its projects on food prices under objective three and failed to include performance goals relating to a shift in program focus towards building longer-term, sustainable projects with greater economic impact. Table 3 provides a summary of phase two results.

Table 3: Phase Two Results for CDP-K Program (March 15, 2009 - March 15, 2011)

Objective	Goal (thru Sept. 15, 2011)	Reported Results (thru March 15, 2011)
Provide CFW opportunities		
Number of beneficiaries	77,812	77,497
Project activity spending (salaries and cost of materials)	\$37.7 million	\$28 million
Days worked	2.9 million	2.2 million
Project category results	The modification mentions seven project categories where work should be targeted. Unlike phase one of the cooperative agreement, project category goals are not listed such as number of beneficiaries, wages disbursed, days worked, or construction/production targets stated in kilometers, number of hectares, trees planted, etc.	Appendix II, Table II provides details on project results by project category for the one year period from March 16, 2010 through March 15, 2011.
Increase involvement of women in short term income generating activities		
Number of beneficiaries who are female	11,079 (target not updated for phase two)	13,511
No specific sub-tasks or deliverables beyond general expectation that CARE continue to work towards ensuring the participation of woman in project activities.	As stated.	Not applicable.
Improve the understanding of the causes and effects of food insecurity and the impact of project activities on food prices.		
Conduct assesment to verify the appropriatenes of proposed cash for work interventions	As stated.	CARE commissioned a third-party assessment of its program. Building on the results of the earlier CSI studies, this December 2010 "livelihood analysis" study provides a more in-depth review of the impact of CARE's cash for work projects.
Conduct market analysis to understand the impact of project intervention on food prices in the market	As stated.	Assessment not conducted.
Coordinate and collaborate with stakeholders.		
No specific sub-tasks or deliverables beyond general expectations that CARE would continue to coordinate with relevant Afghan ministries.	As stated.	Not applicable.

Source: Cooperative agreement modification dated March 7, 2010 and CARE's 8th quarterly report to USAID (December 16, 2010 to March 15, 2011).

Under phase one and phase two of the cooperative agreement, CARE internally allocated nearly \$3 million dollars to support improved understanding of the causes and effects of food insecurity in urban areas. Some portions of these funds would be associated with the costs of producing the studies that CARE has not conducted, leading to a potential for cost recovery.

Progress Toward Longer Term Goals Was Not Tracked

USAID regulations state that USAID missions and offices and their agreement officer teams are responsible for measuring progress towards achieving intended program results.¹² According to the head of USAID office of stabilization programs in Kabul, the mission is broadly seeking to move cash-for-work programs from a focus on immediate distribution of cash to serve an urgent humanitarian purpose, such as food relief, to a new focus which includes long term economic impact; local ownership for completed projects; capacity development on the part of Afghan government entities; and increasing Afghan government responsiveness, accountability, and transparency to its people.¹³ However, USAID failed to incorporate these broader goals into the CDP-K agreement even though a shift in program focus had occurred.¹⁴ As a result, CARE and A. F. Ferguson's reports to USAID do not explicitly address progress towards CDP-K's newer objectives.

USAID officials stated that phase two of the CDP-K included the following goals: (1) funding sustainable projects with long-term economic impact; (2) increasing the Afghan government's ownership, management capacity, and support for completed projects; and (3) discouraging the flow of poorer workers from Kabul's rural suburbs to its urban center.¹⁵ However, USAID's program description and the issued modification for phase two only address the second goal. The modification for phase two of the program does not address funding projects which lead to long-term economic impact and which discourage the flow of workers from rural to urban centers. Furthermore, the modification does not require that CARE or A.F. Ferguson develop and report on related performance indicators and targets for any of these goals. Without defining program goals or tracking a program's impact, there is a potential for missed development opportunities and broader goals not being achieved.

While these broader program objectives are not fully incorporated in the modified cooperative agreement, CARE has begun to shift some resources from non-sustainable projects providing low economic impact, such as canal cleaning efforts, to more sustainable projects providing an economic benefit to the entire community, such as the construction of permanent culverts to divert flood water, which can cause serious damage to a community's economic infrastructure.

CARE has recognized the need to refine and improve the program's long-term impact. In October 2010, CARE established a new unit called the Learning and New Initiatives Unit, which is examining a number of potential steps the program could take to heighten its long-term impact in such key areas as economic and infrastructure development. The unit proposes to assess lessons learned from the program to apply to current and future program activities.

¹² See ADS Chapter 203, Section 3.2.1, the Performance and Management Process.

¹³ The stabilization unit head noted that a draft paper has been prepared for distribution and comment within the embassy community which defines this new direction. His hope is that once fully vetted, this paper will be issued as mission policy directive.

¹⁴ USAID officials noted, that while the program continued to have a significant cash-for-work focus, USAID and CARE officials agreed that the types of projects built with program funds should be expanded to include longer-term, sustainable projects that benefit entire communities and not just the cash-for-work beneficiaries.

¹⁵ The addition of these items is reflected in the program's name change from a food insecurity response program to a community development program.

A senior A.F. Ferguson official agreed that the program's goals have expanded to include the goals described above, but the project's economic impact and sustainability are questionable. The same official noted that careful project planning and monitoring is required to achieve these goals. However, A.F. Ferguson does not track or report on progress towards these broader objectives. The same official suggested that one key reason USAID did not take the time to develop an expanded performance framework for the CDP-K program and incorporate such a framework in the cooperative agreement and related reporting expectations, is that the agency staff are pre-occupied with the task of disbursing large quantities of funds within short periods of time and this can leave program staff with little time for conceptual thinking on how best to define and track broader program objectives.

CDP-K IS SUBJECT TO MULTIPLE LAYERS OF MONITORING AND EVALUATION; SOME IRREGULARITIES WERE NOTED IN THE CASH DISBURSEMENT PROCESS

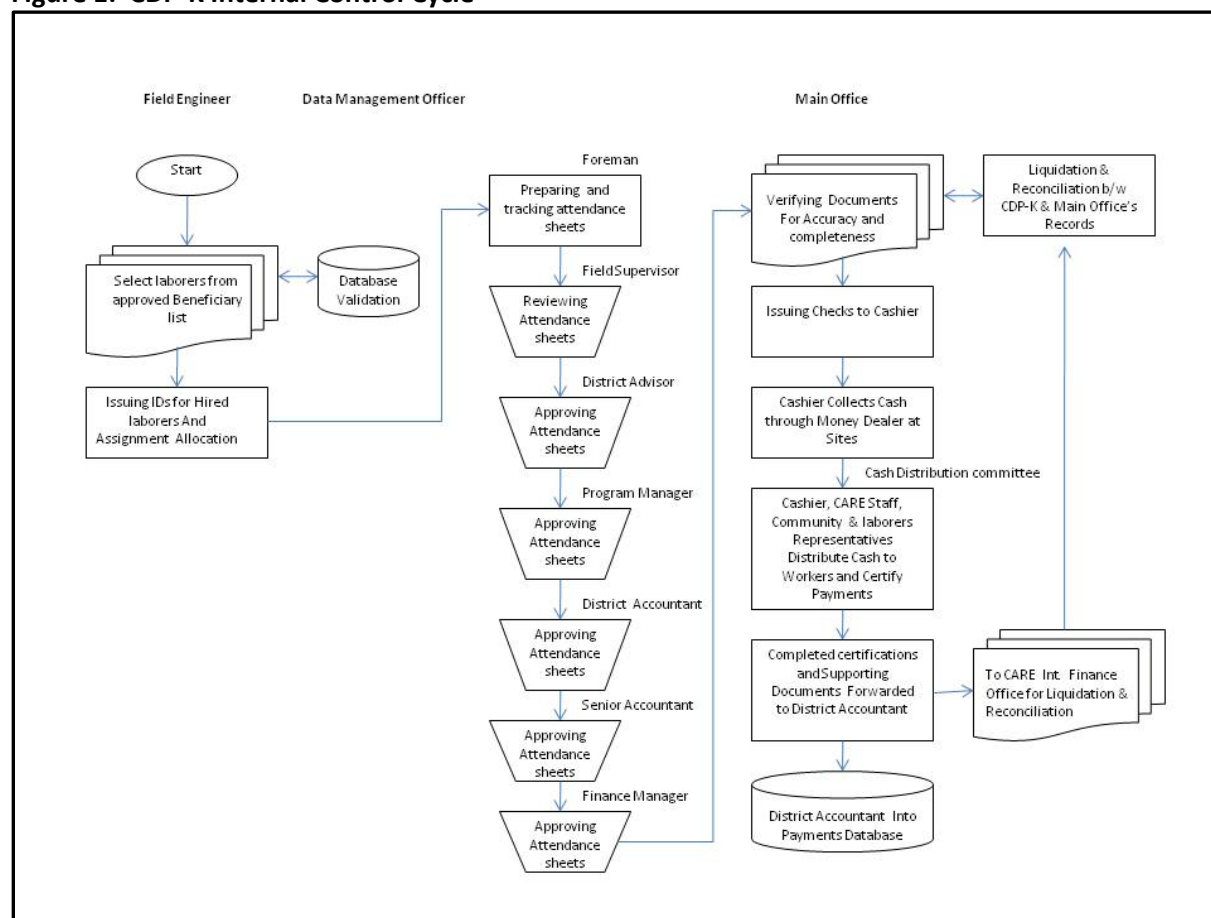
CARE and A.F. Ferguson provide some level of assurance to USAID that program funds have not been inappropriately disbursed. These efforts include a system of internal controls, which are overseen by a 40-person Development, Monitoring, and Evaluation Unit, developed by CARE to provide on-going monitoring of cash disbursements. Our assessment of the controls over cash disbursements at selected project sites revealed that they were operating as intended and were generally adequately documented, although we found limited procedural deficiencies. In addition, as of March 2011, CARE had not yet resolved five observations that A.F. Ferguson reported on related to the cash disbursement process.

CARE Developed a Series of Internal Control Procedures over Cash Disbursements

CARE has developed a system of internal control procedures for the CDP-K program to ensure that cash disbursements are distributed to eligible participants. In particular, CARE's monitoring and evaluation unit reviews the cash disbursement process. Figure 1 describes the internal control cycle for the CDP-K program. Key elements of the cash disbursement and oversight process include:

- **Cash distribution committee.** Cash disbursements must be independently witnessed by at least four individuals: CARE's monitoring officer, an Afghan community council member, the program's cashier, and a laborer representative.
- **Photo identification.** Beneficiaries are issued photo identification cards, which they must bring to the job site for identification. The card is punched to reflect every time they get paid—for a maximum of 4 times, which equals 40 days of employment under the CDP-K policy.
- **Time and attendance verification.** CARE monitoring officers review a number of required forms, including time and attendance sheets, for completeness and accuracy. CARE officers verify the number of days worked by each laborer and ensure that the time sheets are prepared by the field officer/engineer and verified by appropriate supervisory staff.
- **Project files.** CARE maintains records that include verified time sheets for each employed beneficiary, punched and canceled photo identification cards, and associated project tracking and monitoring forms for each completed project.

Figure 1: CDP-K Internal Control Cycle



Source: SIGAR analysis of CARE data.

Each monitoring officer prepares weekly reports highlighting any problems or concerns that he or she encounters. CARE's management, in turn, provides USAID with quarterly reports summarizing its monitoring activities and findings. Our review of quarterly reports filed since June 2009 found only two substantive instances of reported problems. In both cases, CARE took corrective actions and no U.S. reconstruction funds were lost.¹⁶

Our field visits to two CDP-K project sites and review of selected files and discussions with CARE officials revealed that CARE staff generally followed the control procedures over cash disbursements.¹⁷ Although we identified some deviations from established procedures, these exceptions did not

¹⁶ Only two instances of reported problems with CARE's cash disbursement process have been reported. In both cases, corrective action was taken and new procedures were implemented. No funds were lost as a result of the incidents. In March 2009, a cashier absconded with the equivalent of over \$22,000 of project funds that were to be paid out as wages. After contacting the cashier's father, however, all the funds were returned and CARE changed the distribution process so that money dealers are now required to bring the cash to the disbursement site where the funds are received by a disbursement committee, signed for, and then disbursed. A second incident in February 2009, involved beneficiaries who were receiving cash wages without proper identification. CARE monitors discovered the irregularity and, as a result, three staff members were fired for not following proper procedures.

¹⁷ We visited two different project sites in separate districts and witnessed the cash disbursement system. We also reviewed 3 months of forms and reports filed by CARE's monitoring and evaluation staff for all projects in these two districts.

compromise the basic integrity of CARE's cash disbursement process, which is centered on the photo identification cards, verified time sheets, and a cash distribution committee. We found that, in some cases, the beneficiaries lacked national identification cards, some attendance sheets were missing skilled laborer's contract numbers, and some attendance sheets contained smudged fingerprints used to acknowledge worker payment.¹⁸ In addition, certain files lacked complete documentation such as cancelled checks, authorization letters to the cash distribution committee to receive money from the money dealer, and copies of CARE's cash ledgers. CARE has indicated that it has taken action to address most of these discrepancies, including providing better training for record keeping. With regards to the issue of smudged fingerprints, CARE officials agreed that greater care should be taken when recording fingerprints and that attendance forms would likely need to be re-designed to provide enough space to record a fingerprint.

Third-Party Contractor Assesses Cash Disbursement Process for CDP-K

A.F. Ferguson monitoring and evaluation staff complete a monitoring form for each observed cash-for-work activity, which forms the basis for monthly and quarterly reports filed with USAID's AOTR. The monthly reports cover day-to-day implementation efficiencies and deficiencies, and quarterly reports cover the overall monitoring results. A.F. Ferguson's monthly reports describe specific program challenges and problems, including any problems noted with regards to the cash disbursement process. These challenges and problems are reported to CARE for resolution. USAID's AOTR receives a complete list of all open and closed observations and monitors CARE's written response to each open challenge as identified by A.F. Ferguson staff. A senior A.F. Ferguson official noted that, overall, CARE's internal controls system provides a reasonable level of assurance that project funds are only distributed to eligible beneficiaries. The same official added, however, that certain irregularities have been noted with regards to CARE's implementation of its internal controls. These irregularities are reported to CARE on a monthly basis and a process exists to track and resolve A.F. Ferguson's findings and observations, as discussed below.

In March 2011, at the termination of its contract, A.F. Ferguson submitted its final report to USAID. In its report, A.F. Ferguson summarized 51 observations that it had made to USAID throughout the course of their monitoring and evaluation activities of CDP-K. As of March 2011, there were 21 unresolved observations. Of these, five related to the cash disbursement process.¹⁹ The following are examples of the unresolved observations relating to the cash disbursement process:

- A beneficiary on one sub-project did not have a photo on his CARE-issued identification card and his national identification number was not listed on the card.
- Cash was partly disbursed in the absence of one member of the cash distribution committee on one sub-project.

¹⁸ CARE officials noted that fingerprints are used in lieu of signatures to acknowledge receipt of payment but not as evidence that only qualified individuals receive payment. They noted that each worker is issued a unique photo identification which provides proof of identity. This photo identification must be shown to cash disbursement committee members at the time of payment. This photo identification is punched at each payment and taken from the worker at the conclusion of their authorized work period. The "canceled" photo identification becomes a part of CARE's documented records for each project.

¹⁹ In addition to the cash disbursement process, A.F. Ferguson reported to USAID on other observations, including coordination with stakeholders and CARE and CDP-K's organizational structures. For the purposes of this audit, we focused on the cash disbursement process given the potential risks of fraud, waste, and abuse.

- Cash disbursement was not carried out in accordance with the cash disbursement policy since the money was not brought by the money dealer to the site, instead it was brought to the site by the cashier from the head office.

USAID is pressing for corrective actions in all cases of unresolved observations, but some will remain open due to the nature of the finding, according to program officials. For example, according to USAID officials, up to 30 percent of Afghans do not have a Tazkira (identification) card and it would be unreasonable to expect CARE to resolve this issue on its own. USAID officials acknowledged the importance of ensuring that all CARE staff adhere to all internal controls over cash disbursements to mitigate the potential risk of distributing funds inappropriately.

CONCLUSION

Cash-for-work projects involve inherent risks of fraud, waste, and abuse. In planning CDP-K, USAID officials acknowledged these risks and required a multi-layered system of internal controls over the cash disbursement process. USAID planned to be substantially involved in the oversight of this cash-for-work program and, therefore, chose to award a cooperative agreement to CARE International, rather than a grant. In accordance with the program design and terms of the cooperative agreement, CARE established a monitoring and evaluation unit to track and measure outputs and outcomes of the CDP-K project. In addition, USAID contracted with a third-party organization to help monitor and evaluate implementation of the CDPs across Afghanistan, including monitoring and reporting on CARE's systems and controls in place to prevent fraud and abuse. CARE has largely met the schedule, cost, and outcome requirements of the cooperative agreement under both phases with two notable exceptions. First, CARE failed to conduct certain required studies under both phases which were included in the cost of the agreement. Second, with the expansion of the program in March 2010 to longer-term, sustainable projects, USAID did not define specific objectives and performance metrics to gauge CARE's progress toward achieving these broader goals. USAID's failure to require that CARE identify, track, and report its progress toward achieving these expanded program goals raises the risk that these funds will be spent on activities or projects that do not promote long-term economic development or advance U.S. strategic interests. Although CARE has established a system of internal controls to mitigate risks over the cash disbursement process, USAID's third party monitoring and evaluation contractor noted certain procedural shortcomings that CARE had not fully addressed. Without consistent implementation of internal controls over the cash disbursement process, USAID and CARE increase the risks of fraud, waste, and abuse of these funds.

RECOMMENDATIONS

To ensure that the program's broader objectives are achieved and appropriate oversight of program funds is provided, SIGAR recommends that the USAID Mission Director require that:

1. USAID and CARE program staff document the specific nature and definition of CDP-K's expanded project goals for this and any potential follow-on awards;
2. CARE address to what degree these goals were met when it submits its close-out report to USAID later this year, along with any lessons learned with regards to why, if applicable, certain long-term goals were not met;
3. USAID and CARE determine to what degree, if any, CARE should reimburse USAID for the costs associated with required studies that were not completed; and,
4. USAID and CARE reconcile remaining internal control issues identified by A.F. Ferguson as soon as possible.

COMMENTS

USAID provided written comments on a draft of this report, which are included in appendix III. USAID concurred with all four of our recommendations. Regarding recommendations one and two, , USAID noted it will work with CARE program staff to document the specific expanded project goals under phase 2 of the cooperative agreement and ensure that related lessons learned and recommendations for further activities are included in CARE's project close-out report. Regarding recommendation three, USAID stated it will determine to what degree, if any, CARE should reimburse USAID for the costs associated with required studies that were not completed. Regarding recommendation four, USAID noted it will work closely with CARE to review internal control procedures over cash disbursements and promptly rectify any remaining internal control issues.

APPENDIX I: SCOPE AND METHODOLOGY

This report discusses the results of an Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of a cooperative agreement between the U.S. Agency for International Development (USAID) and CARE International to provide food assistance relief using cash-for-work opportunities to qualified beneficiaries through the Community Development Program-Kabul (CDP-K). This report assesses (1) the processes and procedures USAID followed to award this cooperative agreement; (2) whether it is being implemented within the schedule, cost, and outcome terms of the agreement; and (3) the implementation of internal controls over cash disbursements.

To examine the processes and procedures USAID followed to award this cooperative agreement, we reviewed the award file, the cooperative agreement, its modifications, and supporting documents. We also reviewed USAID regulations and guidance and relevant statutory provisions, including USAID's Automated Directives System. In addition, we analyzed policies associated with acquisitions and award decisions in Afghanistan. We interviewed officials from USAID, CARE, and an independent contractor, A.F. Ferguson, a private accounting firm hired by USAID to provide additional monitoring and evaluation of the program.

To determine whether the cooperative agreement is being implemented within the cost, schedule, and outcome terms of the agreement, we examined the cooperative agreement, its modifications, and related documents. We reviewed progress reports and related monitoring and evaluation documents from CARE and A.F. Ferguson.

To assess the internal controls over the cash disbursement process, we visited two different project sites in two different districts and observed the cash disbursement system to determine if the process was functioning as intended. We also reviewed 3 months of forms and reports filed by monitoring and evaluation staff for all projects in these two districts. We also reviewed all quarterly and monthly reports, issued by CARE and A. F. Ferguson, respectively. Lastly, we interviewed USAID, CARE, and A.F. Ferguson officials.

To assess the reliability of data reported by CARE, we reviewed the results of a data reliability assessment conducted in April 2010, by a consulting firm hired by USAID which found that the performance data provided by CARE was sufficient and could be relied on to assess program results.

We conducted work in the city of Kabul and its suburbs from August 2010 to May 2011 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This performance audit was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction under the authority of Public Law No. 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008.

APPENDIX II: PROJECT RESULTS THROUGH THE END OF PHASE ONE AND PHASE TWO

Tables I and II provide CARE reported results for phase one and two of the cooperative agreement by category of project.

**Table I: CARE Reported Results by Project Category for Phase One
(March 15, 2009 to March 15, 2010)**

Project Category	Results
Road side ditch excavation	95.3 kilometers
Road side drain construction	53.9 meters
Road surfacing and graveling	143.2 kilometers
Canal cleaning	1015 kilometers
Number of vines tended	5.4 million
Number of trees planted	6 thousand
Orchard plowing	316 hectares
Park rehabilitation	43.7 thousand square meters
Boundary wall construction	4.4 kilometers
Culverts construction	3.6 kilometers
Water wells dug	126 wells
Kabul River cleaning	28.3 kilometers

Source: CARE's 4th quarterly & end of year 1 report to USAID (March 15, 2009-March 15, 2010).

**Table II: CARE Reported Results by Project Category for Phase Two
(March 16, 2010 to March 15, 2011)**

Project Category	Results
Road side ditches excavation	4.3 kilometers
Road side ditch construction	49.0 meters
Road surfacing and graveling	108.0 kilometers
Number of trees planted	113.2 thousand
Park rehabilitation	11.3 thousand square meters
Boundary wall construction	1.9 kilometers
Culverts construction	13.2 kilometers
Irrigation systems	23.6 kilometers
Tree nurseries	7 nuseries

Source: CARE's 8th quarterly report to USAID (Dec. 16, 2010 to March 15, 2011).

Note:^a Certain project categories, such as canal cleaning, were dropped in phase two to place greater emphasis on projects with longer-term impact.



USAID
FROM THE AMERICAN PEOPLE

AFGHANISTAN

MEMORANDUM

TO: Monica Brym, Assistant IG for Forward Operations/Deputy
Assistant IG for Audits
Office of the Special Inspector General for Afghanistan
Reconstruction (SIGAR)

FROM: Jeffrey Ashley, Senior Deputy Mission Director 

DATE: June 23, 2011

SUBJECT: Draft SIGAR Report "USAID's Kabul Community
Development Program Largely Met the Agreement's Terms,
But Progress Toward Long-Term Goals Needs to be Better
Tracked" (SIGAR Audit 11-11)

REF: SIGAR Transmittal email dated 5/31/2011

Thank you for providing the Mission with the opportunity to review the draft report on SIGAR's audit of the Kabul Community Development Program (CDP-K), implemented by CARE under Cooperative Agreement No. 306-A-00-09-00510-00.

Discussed below are the Mission comments on SIGAR's recommendations.

To ensure that the program's broader objectives are achieved and appropriate oversight of program funds is provided, SIGAR recommends that the USAID Mission Director require that:

1: USAID and CARE program staff document the specific nature and definition of CDP-K's expanded project goals for this and any potential follow-on awards.

Mission Comments: The Mission agrees with the recommendation.

USAID does not foresee an expanded or follow-up program to CDP-K at this time.

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Given that CDP-K closes 30 November 2011 the Mission does not recommend initiating a restructuring of the Performance Management Plan (PMP) and program design for CDP-K to include expanded project goals for this award. In compliance with the recommendation any potential follow up awards will be incorporated into additional USAID Performance Management Plans (PMP) and program design.

2. CARE address to what degree these goals were met when it submits its close-out report to USAID later this year, along with lessons learned with regards to why, if applicable, certain long-term goals were not met.

Mission Comments: The Mission agrees with the recommendation.

As stated on page 7 of the Cooperative Agreement, CARE shall submit a final report that includes information on an assessment of the project's achievement of results and project indicators. The final report shall also include lessons learned and recommendations for further activities. In accordance with the agreement, CARE will ensure that the required information is included in the final report. Until then, CARE will continue with regular progress reports towards objectives. In addition, CARE organized a Learning and New Initiative Unit under the CDP-K Program with the express intent of capturing lessons learned to incorporate into its programming cycle and provide such lessons into the anticipated final report.

3. USAID and CARE determine to what degree, if any, CARE should reimburse USAID for the costs associated with required studies that were not completed.

Mission Comments: The Mission agrees with the recommendation.

In accordance with the agreement, CARE is responsible for conducting three required studies. The first study is a market analysis to understand the impact of project interventions on food prices in the local markets. The second study is a gender analysis for gender sensitive programming. The third study is a stakeholder analysis that will demonstrate the extent of stakeholder participation in the program process. No specific format or due date for these studies are stated in the Cooperative Agreement.

As noted by SIGAR, a portion of market analysis, a study of the effects of food insecurity, was already completed in the Coping Strategies Index study that was conducted under CDP-K. USAID has requested CARE to complete the remainder of the market analysis regarding the causes of food insecurity and the impact of the program on food prices. If CARE does not complete and submit the required remaining market analysis by the completion date of the award on 11/30/2011, USAID will determine if any costs associated with the remaining analysis were billed to USAID and, if yes, undertake appropriate cost recovery actions.

A gender gap analysis is being undertaken by CARE to refine further the role the program has on programming for women. USAID will ensure findings from this analysis will be incorporated into the final program report. Given the fact that the gender gap analysis is ongoing USAID will discuss the gender gap analysis with CARE to determine whether it is sufficient to fulfill the gender analysis requirement and if not, will determine whether CARE can conduct a proper analysis.

Stakeholder involvement has been an inherent part of the program strategies for coordination with Afghan Government entities as well as civil society groups. CARE's coordination with various stakeholders including Afghan government line ministries, the Kabul Municipality and civil society groups is exemplified by a series of MOU's signed with various stakeholders. While no formal stakeholder analysis has been conducted USAID has requested CARE to formalize its efforts into a comprehensive stakeholder analysis. If CARE does not complete and submit the required stakeholder analysis by the completion date of the award on 11/30/2011, USAID will determine if any costs associated with this analysis were billed to USAID and, if yes, undertake appropriate cost recovery actions.

4. USAID and CARE reconcile remaining internal control issues identified by A.F. Ferguson as soon as possible.

Mission Comments: The Mission agrees with the recommendation.

The last third party monitoring report from A.F Ferguson was submitted in December 2010 and covered the period from 12/01/2010 through 12/31/2010. CARE has responded to the observations in the third party monitoring report based on instructions from USAID's AOTR. As a result CARE conducted an internal review of its policies and procedures relating to its internal controls and made appropriate adjustments and updates to its procedures.

USAID will work closely with CARE to review current internal control procedures and promptly rectify any remaining internal control issues. Given CARE's actions to address all findings in the third party monitoring report, the USAID Mission feels that CARE has addressed the observations highlighted in the third party monitoring report.

cc: TPhillips, CDDEA
HDorcus, OAPA

(This report was conducted under the audit project code SIGAR-029A).

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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