

**Progress Made Toward Increased Stability under
USAID’s Afghanistan Stabilization Initiative-East
Program but Transition to Long Term Development
Efforts Not Yet Achieved**



June 29, 2012



SIGAR

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Special Inspector General for Afghanistan Reconstruction

What SIGAR Reviewed

In June 2009, the U.S. Agency for International Development's (USAID) Office of Transition Initiatives (OTI) awarded a 3 year, \$151 million task order to Development Alternatives, Inc., (DAI) to implement the Afghanistan Stabilization Initiative-East (ASI-East) program in Afghanistan. ASI-East focuses on awarding grant activities to local implementers in 10 districts distributed across four provinces in eastern Afghanistan. A key objective of ASI-East is to support the "hold" phase of the U.S. Counterinsurgency (COIN) strategy, which consists of "clear, hold, and build" phases designed to permanently stabilize targeted districts and communities. After task order award, OTI asked DAI to develop a more strategic approach to stabilization programming designed to target specific sources of instability at the district level. DAI began to implement this new approach, the District Stability Framework (DSF), in February 2010. In February 2012, OTI awarded a new 3-year, \$161.5 million follow-on task order to Creative Associates International, Inc., to continue ASI programming efforts in eastern and southern Afghanistan under a single implementing partner.

This report assesses to what extent (1) expended ASI-East costs were allowable, allocable, and reasonable; (2) performance oversight, monitoring, and evaluation systems have been implemented; and (3) progress has been made toward transitioning districts to the "build" phase of the COIN strategy. To accomplish these objectives, we interviewed Afghanistan-based staff from USAID OTI, USAID's Stabilization Unit, DAI, and third-party monitoring staff hired through DAI to provide independent monitoring and evaluation of the program. We also interviewed USAID OTI staff based in Washington, D.C. We reviewed the ASI-East task order, related procurement documents, and a sample of 20 grants. We reviewed a range of performance management documents, data, and systems. We reviewed, analyzed, and tested select DAI billing and timekeeping policies and procedures and incurred costs to determine if program costs were allowable, allocable, and reasonable. We conducted work in Kabul, Afghanistan, and Washington, D.C., from May 2011 to June 2012 in accordance with generally accepted government auditing standards.

What SIGAR Found

SIGAR found that although incurred costs under the ASI-East task order were generally allowable, allocable, and reasonable, certain cost-related issues need to be addressed. These issues included program spending that was marked by high operating costs, more than \$590,000 in questionable program costs, and a limited number of timekeeping and billing deficiencies, which increased the risk of inappropriate charges.

DAI implemented a range of program oversight, monitoring, and evaluation systems; however, final program results remain to be determined, and certain administrative issues relating to program oversight need to be addressed in the follow-on task order award. USAID's efforts to evaluate ASI-East's final program results will be critical to assisting with short and long-term decisions regarding whether and how extensively the DSF methodology should be implemented in stabilization efforts, such as USAID's Stabilization in Key Areas program. Program monitoring and evaluation centered on the three-tier system called for by the DSF methodology. Preliminary results indicate that ASI-East activities have been successfully implemented and that the impact of this program on stability at the district level has been positive, but overall stability remains poor across ASI-East's 10 programming districts based on seven leading indicators of stability developed by DAI and its monitoring and evaluation subcontractor.

Despite nearly 3 years of program efforts, none of ASI-East's target districts have transitioned to the "build" phase of the COIN strategy, which is designed to solidify the gains during the "hold" phase of COIN operations. OTI has only recently drafted district-level disengagement criteria. An exit strategy for OTI programming in Afghanistan remains to be developed under the follow-on task order for ASI. These efforts will need to be integrated with planned improvements and evaluations of the DSF methodology.

What SIGAR Recommends

SIGAR recommends that USAID OTI (1) review the balance between project and operating costs resulting from the application of the DSF methodology to ASI-East programming decisions, (2) address identified timekeeping and billing deficiencies, (3) review the questioned costs identified by SIGAR, (4) include outcome indicators under the DSF, (5) produce a lessons learned summary of ASI-East's implementation of the DSF, and (6) develop approved district-level disengagement criteria and a related exit strategy for OTI programming in Afghanistan. When preparing the final report, SIGAR considered comments from USAID. USAID generally concurred with the recommendations and noted the actions it has taken or will take to address SIGAR's recommendations. Based on USAID's comments, SIGAR revised recommendations four and five to also address the Stabilization Unit Chief. Through its Measuring Impact of Stabilization Initiatives program, USAID's Stabilization Unit in Kabul is responsible for monitoring and evaluating USAID's stabilization efforts, including USAID's implementation of the DSF.

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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

June 29, 2012

The Honorable Hillary Rodham Clinton
Secretary of State

The Honorable Leon Panetta
Secretary of Defense

The Honorable Ryan C. Crocker
U.S. Ambassador to Afghanistan

General John R. Allen
Commander, U.S. Forces – Afghanistan, and
Commander, International Security Assistance Force

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Dr. S. Ken Yamashita
USAID Mission Director for Afghanistan

Mr. Robert Jenkins
Director, Bureau for Democracy, Conflict, and Humanitarian
Assistance/Office of Transition Initiatives (DCHA/OTI)

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of the U.S. Agency for International Development's (USAID) task order with Development Alternatives, Inc., to implement the Afghanistan Stabilization Initiative-East program. This report includes six recommendations to USAID that address a range of issues including questioned costs, programming and evaluation methodology, and transition planning.

When preparing the final report, we considered comments from USAID's Office of Transition Initiatives. These comments are reproduced in appendix III. 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 Act of 2008.

A handwritten signature in black ink, appearing to read "Steven J. Trent".

Steven J Trent
Acting Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS AND ACRONYMS

| | |
|-------|---|
| ASI | Afghanistan Stabilization Initiative |
| COIN | Counterinsurgency |
| COTR | Contracting Officer Technical Representative |
| DAI | Development Alternatives, Inc. |
| DCHA | Bureau for Democracy, Conflict, and Humanitarian Assistance |
| DSF | District Stability Framework |
| FAR | Federal Acquisition Regulation |
| GIRoA | Government of the Islamic Republic of Afghanistan |
| IQC | Indefinite Quantity Contract |
| MISTI | Measuring Impact of Stabilization Initiatives |
| OTI | Office of Transition Initiatives |
| SIGAR | Special Inspector General for Afghanistan Reconstruction |
| SWIFT | Support Which Implements Fast Transition |
| TAMIS | Technical Administrative Management Information System |
| USAID | U.S. Agency for International Development |



Progress Made Toward Increased Stability under USAID’s Afghanistan Stabilization Initiative–East Program but Transition to Long Term Development Efforts Not Yet Achieved

A key objective of the Afghanistan Stabilization Initiative-East (ASI-East) is to support the coalition Counterinsurgency (COIN) strategy, which includes “clear, hold, and build” phases designed to permanently stabilize target districts and communities in areas previously controlled by insurgents.¹ The ASI-East program focuses on implementing small-scale community development and media grants in ten districts distributed across four provinces in eastern Afghanistan during the “hold” phase of the strategy, which occurs before long-term development efforts are initiated in the “build” phase.² ASI-East projects are intended to build allegiance and confidence between local communities and the Government of the Islamic Republic of Afghanistan (GIROA) in target regions and districts. The intended outcome is to achieve immediate employment generation, improve the community’s infrastructure, and increase access to public services with the overall goal of improving community and government capacity and public support for GIROA.

USAID’s Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Transition Initiatives (DCHA/OTI) implements the ASI program in Afghanistan. OTI works on the ground in countries to provide fast, flexible, short-term assistance targeted at key political transition and stabilization needs. OTI works closely with USAID regional bureaus and missions and with other U.S. counterparts to identify programs that complement other assistance efforts and lay a foundation for longer-term development. In June 2009, OTI awarded a task order to Development Alternatives, Inc. (DAI) under USAID’s global Support Which Implements Fast Transition III (SWIFT III) indefinite quantity contract (IQC). The ASI-East program is a 3-year task order with a program ceiling of \$151 million. After task order award, OTI asked DAI to develop a more strategic approach to stabilization programming designed to target specific sources of instability at the district level. DAI began to implement this new approach, the District Stability Framework (DSF), in February 2010. The DSF approach represents a shared terminology and a unified assessment process for identifying and resolving sources of instability in target areas.

This report assesses to what extent (1) expended ASI-East costs were allowable, allocable, and reasonable; (2) performance oversight, monitoring, and evaluation systems have been implemented; and (3) progress has been made toward transitioning districts to the “build” phase of the COIN strategy.

To accomplish these objectives, we interviewed staff in Afghanistan from USAID OTI, USAID’s Stabilization Unit, DAI, and third-party contractor staff hired by DAI to provide independent monitoring and evaluation of the program. We also interviewed USAID OTI staff in Washington, D.C. including the

¹The COIN strategy includes working closely with Afghan counterparts to rid target areas of insurgents (“clear” phase), provide humanitarian relief and initial government services after it is cleared (“hold” phase), and applying coordinated civil-military development efforts to reinforce security gains (“build” phase). The ASI-E program aims to support the transition from “hold” to “build” by working with government officials and through traditional community leadership structures to identify sources of instability and implement projects that reinforce security gains made by coalition forces. These projects lay the groundwork for long-term USAID development projects.

²Throughout this report, we refer to 10 districts when discussing ASI-East program activity. This number of districts was accurate as of October 2011 and these districts do represent the core of ASI-East programming efforts. Through an ongoing assessment process, however, OTI made the decision to exit and enter districts at multiple points in the program. As of May 2012, the ASI-East program had active projects in 15 districts in Regional Command-East and 3 districts in Regional Command-South.

cognizant contracting officer and contracting officer's technical representative (COTR) for the ASI-East task order. We reviewed the ASI-East task order and related procurement documents including the SWIFT III IQC. We reviewed a range of performance management documents, data, and systems including DAI's annual and quarterly performance reports, activity tracking systems, and a three-tier monitoring and evaluation system and related reports and studies. We reviewed, analyzed, and performed tests of select DAI timekeeping and billing policies and procedures and incurred costs to determine if program costs were allowable, allocable, and reasonable per Federal Acquisition Regulation (FAR) principles.³ We reviewed DAI's grant making and oversight procedures for a sample of 20 completed and closed grants awarded under the task order. We also attended the 3-day DSF training course delivered by the COIN academy with support from trainers provided by OTI to gain a deeper understanding of the DSF as a new stabilization programming tool. We conducted our work in Kabul, Afghanistan, and Washington, D.C., from May 2011 to June 2012 in accordance with generally accepted government auditing standards.

BACKGROUND

The ASI-East task order required DAI to meet a phased program schedule covering pre-deployment/start up, full implementation, and project close out. DAI project close out efforts have not yet begun because OTI recently extended ASI-East's performance period by 3 months to September 2012. This extension was designed to allow a more orderly transition to a follow-on task order recently awarded by OTI. The intent of the follow-on task order is to continue the ASI-East and parallel programming efforts in ASI-South under a single task order implemented by one implementing partner. The new task order was awarded to Creative Associates International, Inc., in February 2012, with a ceiling price of \$161.5 million. The new task order has an effective start date of March 2012 and an estimated completion date of February 2015.

With regard to performance expectations, the ASI-East task order has two objectives: (1) create conditions that build confidence between communities and GIROA through improvement of the economic and social environment in the region, and (2) increase public access and awareness to information about GIROA's social, economic, and political activities and policies in Afghanistan. By design, the task order requires DAI to be responsive to changes in program strategy by expanding, decreasing, or changing its program activities with as little as a few days notice. Consequently, these two objectives did not have associated performance goals and targets because the task order was viewed by OTI as a tactical programming tool and program direction might need to change on very short notice.

At the time of award, DAI used the military Tactical Conflict Assessment and Planning Framework tool to identify and select stabilization projects for the ASI-East program. The framework sought the perceptions of local nationals through the use of a survey to determine specific sources of instability. Under this approach, DAI awarded 49 initial grants under the ASI-East program totaling \$1.3 million. In December 2010, through the ASI-East task order, OTI implemented DSF to identify specific sources of instability and program resources accordingly. Through October 2011, DAI awarded an additional 412 grants using the DSF methodology at a total additional cost of about \$21 million.

³Costs are allowable if they are determined to be allocable and reasonable, among other factors. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances, amongst other factors. A cost is considered reasonable if in its nature or amount it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

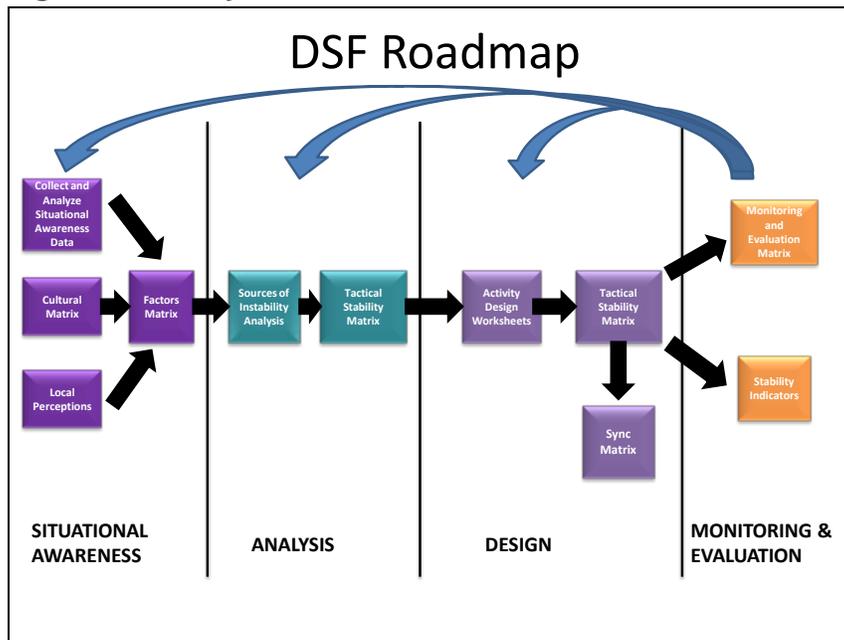
DSF Provides a Uniform Approach for Designing and Evaluating Stability Operations Programs

After the task order award, OTI determined that it wanted DAI to implement the ASI-East program under a new methodology that departed from the relatively rudimentary Tactical Conflict Assessment and Planning Framework tool and moved toward a more rigorous programming and monitoring and evaluation methodology. OTI's DSF methodology did not follow the "burn-rate" approach to program spending, which emphasizes spending funds as quickly as feasible. In contrast, the DSF programming model takes a more strategic view toward spending, which DAI's Chief of Party described as a "small and smart" approach to stabilization programming. Both OTI and DAI agreed on the need for this new programming methodology and, in coordination with COIN Training Academy, developed the DSF in early 2010 under the ASI-East program as an integrated civilian-military methodology for identifying, implementing, and measuring the impact of stabilization activities.

DSF provides civilians, military, and GIRoA officials with a shared terminology and a unified assessment process for gauging the stability picture across a district or area, identifying local sources of instability, and developing coherent and tailored programs and interventions to address them. DSF emphasizes assessing results and modifying and adapting program activity based on empirical data. The DSF system requires a three-tier monitoring and evaluation system, which measures output, impact, and overall stability conditions at the district level. DSF implementation efforts have included developing several iterations of the methodology and training more than 1,200 civilian and military personnel.

Figure 1 shows the basic elements of the DSF methodology and the four-phase process, which starts with situational awareness and concludes with monitoring and evaluation efforts with a feedback loop back to the first phase in the process. The DSF is implemented at the district-level by a civilian and military working group charged with designing and implementing a set of projects to address specific sources of instability that are aligned with stabilization programming goals.

Figure 1: DSF System Flowchart

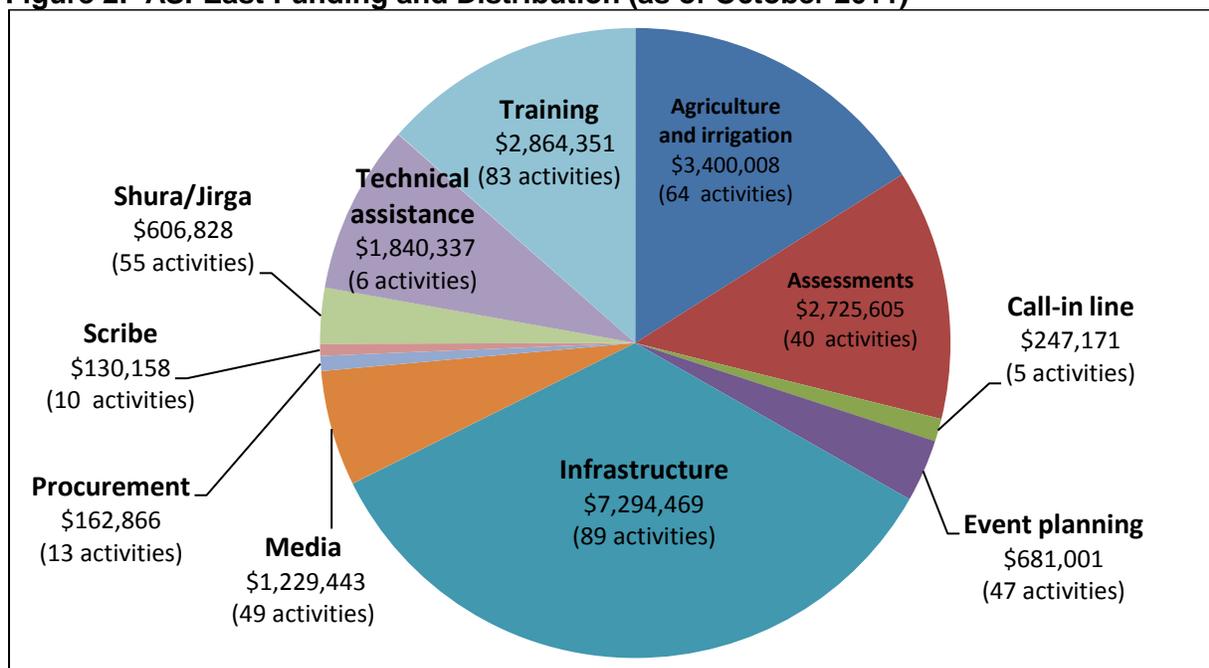


Source: USAID OTI

Grant Activity and Funding

ASI-East program resources are largely distributed through a “grants under contract” approach, which relies on DAI as the contractor to award, administer, assess, and close-out grants to local community implementers. As of October 16, 2011, DAI awarded 461 grants at a total cost of about \$21.2 million in ten districts distributed across Nangarhar, Kunar, Wardak, and Paktika provinces in eastern Afghanistan. These grants cover a wide-range of projects, such as improvements in agriculture and irrigation; assessments of community and district availability of services; media outreach efforts that showcase GIRoA’s involvement in providing needed services; and a variety of infrastructure projects, including repairing and building new roads, retaining walls, flood ditches, and sanitation facilities. Figure 2 provides a breakout of ASI-East activity funding and the number of grants awarded through October 2011.

Figure 2: ASI-East Funding and Distribution (as of October 2011)



Source: SIGAR analysis of DAI provided grants data.

Note: Shura/jirga is an Afghan meeting of a decision making body (typically tribal/village elders). In the context of the ASI-East program, these meetings were convened to discuss grant-funded activities. Scribe activities were used to gather and record certain demographic information.

PROGRAM SPENDING MARKED BY HIGH OPERATING EXPENSES AND CERTAIN QUESTIONABLE COSTS

While DAI did not exceed the \$151 million cost ceiling for the ASI-East task order, program expenditures largely covered operating expenses, as opposed to activity level spending. DAI officials noted that relatively low activity spending levels represented a “small and smart” approach to stabilization, which OTI officials endorsed based on the application of the DSF methodology to ASI-East programming decisions. SIGAR identified over \$590,000 in questionable program costs that will need to be reviewed by USAID to determine whether these costs were allowable, allocable, and reasonable. Finally, SIGAR noted a limited number of procedural and compliance deficiencies associated with two of DAI’s key business systems.

ASI-East Implementation Marked by Low Activity Spending and High Operating Costs

SIGAR found that DAI had spent only 25 percent of expended funds on project activities through October 2011, with the balance of funds spent on operating expenses. This spending pattern was not consistent with the implied spending ratios in the task order, as stipulated at the time of award. Specifically, the task order stipulated that up to \$83 million could be spent on program activities and up to \$68 million could be spent on operating costs.⁴ Therefore, the implied spending ratio was 55 percent on program activities and 45 percent on operating costs.

DAI representatives noted that the ASI-East program has been implemented under a “small and smart” approach to stabilization based on the application of the DSF methodology. One result of the application of this “small and smart” approach to programming is that the ratio of project costs to operating costs is not in line with the implied spending ratio in the task order. DAI officials noted that the “small and smart” approach to programming was approved by OTI officials because it represents the logical outcome of applying the DSF to programming decisions. DAI officials also noted that this approach contrasts with the “burn rate” approach typically used by other assistance programs. They also noted that unlike many other USAID programs which often involve large capital expenditures for infrastructure development, ASI-East’s use of small grants to local implementers tended to depress program spending levels.

DAI officials noted that administering and overseeing these small grants requires the same level of effort and operating expenses as administering and overseeing large dollar contracts and assistance instruments. DAI also stated the required operating expenditures needed to establish and operate the ASI-East program were not excessive or unreasonable. Specific operating costs included office and living space rental in Kabul and locations across Afghanistan, security costs, and the large number of personnel needed to implement and oversee the hundreds of grants awarded under the program.

DAI Charged More Than \$590,000 in Questionable Costs to the ASI-East Program

We generally found that the ASI-East incurred costs were allowable, allocable, and reasonable with the following exceptions:

- OTI originally contracted directly with a contractor (QED) to provide independent monitoring and evaluation services for the ASI-East program. QED subcontracted with Altai Consulting to provide these services. The contract between OTI and QED expired in July 2011. To provide follow-on monitoring and evaluation services, OTI requested that DAI subcontract with Altai Consulting to perform additional cycles of monitoring and evaluation in three districts, at a total cost of over \$500,000. OTI staff developed a conflict of interest mitigation plan to address questions of independence and oversight raised by this arrangement. The plan called for OTI to provide oversight of the subcontract and directly receive all subcontract deliverables. DAI’s role in administering the subcontract was essentially limited to reviewing and approving invoices for payment. In response to the draft of this report, OTI’s Contracting Officer provided additional information regarding the basis for making a determination that the over \$500,000 was allowable. The response, however, did not address the subcontractor oversight. The mitigation plan that was implemented by OTI between DAI and Altai limited DAI’s ability to provide adequate subcontractor oversight, as required by FAR 42.202(e)(2). DAI’s role in administering the subcontract was essentially limited to reviewing and approving invoices for payment. Therefore, we continue to question whether the cost of over \$500,000 was allowable.
- We found that the \$3,400 cost of a household effects demobilization shipment that was related to a DAI Iraq project was incorrectly charged to the ASI-East program. Per the FAR, such costs are unallocable.

⁴Dollar figures based on a revised budget approved under modification 4, approved July 27, 2010, to the task order.

- DAI maintained full comprehensive and war insurance on purchased armored security vehicle while they were in the United States waiting for Afghan customs approval for importation. Property damage insurance alone likely would have provided sufficient coverage and resulted in an estimated cost savings of \$50,000 if DAI had gone with this lower cost option. These additional costs appear to be unreasonable and therefore unallowable per FAR requirements.
- While waiting for its purchased armored vehicles to arrive in Afghanistan, DAI leased armored vehicles, which were covered with comprehensive and war insurance per the terms of the rental agreement. During that time, DAI traded in old leased vehicles for newer ones. When this occurred, DAI added the new vehicles to its insurance policy; however, it did not remove the leased armored vehicles no longer being used. As a result, DAI billed \$38,500 in 2011 for insurance costs on vehicles that were not being utilized by the project; these additional costs appear to be unreasonable and therefore unallowable per FAR requirements.

Relatively Minor Deficiencies in DAI's Time Keeping and Billing Related Processes Noted

We reviewed, analyzed, and performed limited testing on controls of DAI's time keeping and billing systems. We followed the General Accounting Office *Standards for Internal Control in the Federal Government*, which states that physical controls must be in place to secure and safeguard vulnerable assets at risk of loss or unauthorized use.⁵ Generally, DAI's time keeping and billing policies and procedures functioned properly, with a few minor exceptions:

- With regard to DAI Afghan staff timesheets, we observed multiple occurrences where individuals entered time for other individuals on physical timesheets displayed in the lobby of DAI's headquarters in Kabul.
- DAI supervisors sign Afghan timesheets on a monthly basis, as opposed to the bi-weekly reviews conducted of expatriate staff timesheets.
- We noted several instances where DAI did not initially furnish complete supporting documentation for paid invoices. For example, travel invoices did not have the proper contracting officer approval letter attached, procurement invoices did not have all bidding documentation attached, and a brokerage fee had no attached invoice. DAI was able to furnish all supporting documentation once requested. DAI noted that while it does not always keep all supporting documentation attached to invoices, supporting documentation is available in a separate location. SIGAR questions this arrangement, which does not provide adequate assurance that OTI contracting staff have sufficient supporting information available when reviewing and approving invoice claims.
- When leasing items, contractors generally perform a buy versus lease cost analysis to ensure that the government receives the best value for the money. This cost analysis is not only used for contractor purchases, but also for subcontractor purchases. DAI's security subcontractor, Edinburgh International, leased several items including computers and printers, body armor, night vision goggles, and soft skin vehicles without conducting a buy versus lease analysis. In certain cases it would have been cheaper to procure leased items. For example, SIGAR estimates that \$20,000 could have been saved by purchasing computers and printers directly compared to leasing the same equipment. According to DAI, Edinburgh International did not conduct buy versus lease cost analyses for the items discussed above.

⁵U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO-AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999). See also *Development Alternatives, Inc.: 2010 Financial Statement and Audit Results* (Ernst&Young, May 5, 2011). DAI's external auditors' opinions of its financial statements for 2009 and 2010 considered DAI's internal controls when performing the financial audits.

PROGRAM OVERSIGHT, MONITORING, AND EVALUATION SYSTEMS IMPLEMENTED BUT CERTAIN ADMINISTRATIVE REQUIREMENTS NOT MET

DAI and OTI implemented program oversight and monitoring and evaluation systems through a variety of means, including a “grants under contract” tool managed by DAI that was adequately implemented; however, certain administrative requirements of the ASI-East task order related to project oversight were not fully met.⁶ Program monitoring and evaluation centered on the three-tier evaluation system called for by the DSF methodology. Developing this three-tier monitoring and evaluation system took 16 months and final output, impact, and overall stability results are not expected until sometime in 2012. Preliminary results, however, show significant and positive results at the project level while instability remains a problem across ASI-East’s ten program districts in general. USAID’s efforts to evaluate final ASI-East’s program results will be critical to informing short and long-term decisions regarding whether and how extensively this new methodology should be implemented in future stabilization efforts. Although we noted significant levels of program oversight, monitoring, and evaluation, we also identified a limited number of administrative issues relating to program oversight.

DAI and OTI Provided Program Oversight

DAI and OTI staff provided oversight of ASI-East program activities in ten districts across the Regional Command East platform through a variety of means. One key component of provided oversight is the “grants under contract” tool that is managed by 25 DAI expatriate staff overseeing 244 DAI Afghan employees based in Kabul, Jalalabad, and ten District Development Teams. This process requires that a series of award, implementation, and close-out procedures be followed for each grant. Specific requirements include a document checklist, which identifies required grant documents, procurement documents, financial documents, and reporting and evaluation documents. In addition, financial action status, OTI database inputs, and approval signatures from DAI and OTI representatives are required for each grant. To assess whether DAI and OTI exercised adequate controls and oversight, we reviewed a judgmental sample of 20 completed and closed grants awarded by DAI, as of December 2011, and found controls to be adequate for each activity. Specifically, we found that all activity folders contained the information required by DAI for documenting the grant award, implementation, and close-out process.

Located in Washington, D.C., OTI’s COTR is responsible for overseeing the ASI-East program and approving the payment of all project invoices. The COTR’s oversight efforts are supplemented by an extensive network of OTI staff in Afghanistan, which includes a Country Representative based at the embassy in Kabul and a Field Operations and Project Manager and Deputy Regional Representative located in Jalalabad.⁷ These individuals provide additional oversight by working directly with DAI staff in Kabul and Jalalabad and with Regional Command East representatives. All OTI staff have access to DAI-prepared weekly, annual, and quarterly performance reports, which typically include program description, country situation, program activity highlights, successes and challenges, activity summary, program appraisal, and DSF activity status.

OTI also provided oversight of the ASI-East program by conducting periodic program performance reviews and strategic review sessions. These reviews are designed to provide a review of task order progress and key challenges by staff not directly associated with the program. OTI conducted program performance reviews of ASI-East’s activities in November 2010 and October 2011. Key findings from these two reviews include the following:

⁶The ASI-East task order outlines the need for DAI in coordination with USAID/OTI to institute a (1) a monitoring and evaluation system; (2) weekly, quarterly, and annual performance reports; (3) participation in strategic review sessions; and (4) the maintenance of the OTI activity database as the backbone of the performance management system.

⁷As of October 2011, seven OTI staff members were located in Kabul, two were located at the regional command-East platform in Bagram Air Force base, and six others were stationed at other Coalition Forces forward operating bases in the districts in which OTI works.

- The USAID Kabul Mission should maintain stabilization programming capacity, especially in the East and South regions, throughout transition over the next 3 years, despite engagement constraints.
- OTI and DAI need to prepare exit criteria and transition strategies to help move districts from the “hold” to the “build” phase of the COIN strategy.
- OTI should develop a new task order under the SWIFT III IQC with a single implementing partner to consolidate ASI-East and ASI-South.⁸

To review and adjust program activities, OTI and DAI also conducted bi-annual strategic review sessions. The most recent session was conducted in Kabul in October 2011 and was widely attended by OTI and DAI staff from Washington, D.C., and Kabul and Jalalabad, as well as district field personnel. Participants discussed program strategy and monitoring and evaluation efforts, including DAI’s first “Lessons Learned” report.⁹ This report analyzed 90 program activities that were closed and completed in order to identify best practices to apply to future activities.

Certain Program Oversight Elements Not Fully Implemented

SIGAR found that certain administrative and management requirements relating to program oversight had not been fully met, as shown in table 1.

Table 1: Administrative and Management Issues Relating to Program Oversight

| Issue | Description |
|------------------------|--|
| Data validity concerns | The IQC and task order state that DAI should maintain and use the USAID/OTI Activity Database as the “backbone” to generate, develop, manage, monitor, evaluate, and report on program activities. This database has several fields that need to be populated with information that captures the status of the program activity. Per an understanding with OTI officials, DAI used its Technical Administrative Management Information System (TAMIS) to track program activities. Information from this system is being modified on a weekly basis in order to provide a “data dump” into the USAID/OTI Activity Database. We found that OTI accepts the data from DAI’s TAMIS system without conducting periodic data reliability checks. OTI officials noted that they monitor the data uploaded into the OTI Activity Database; however, we were told that this monitoring is performed in Washington, D.C. and not locally in Kabul, where better checks on data reliability could be performed. SIGAR reviewed data for similar periods in the OTI Activity Database and TAMIS and found discrepancies that overstated TAMIS reported activity. While these discrepancies were ultimately explained by OTI officials, we believe data validation should occur at the field level to ensure consistent reporting in both systems. |
| Fraud reporting | We noted three instances of fraud not reported to USAID officials in a timely manner as required by USAID policy and FAR 11.12. Fraud-related costs, per DAI’s disclosed practices and USAID guidance, are to be set aside in an unallowable account so that these costs are not billed to and reimbursed by the U.S. government. We noted that DAI identified three instances of fraud between December 12, 2010, and April 19, 2011, that totaled approximately \$1,000. In two instances, the fraud was discovered before the expense was reimbursed to the employee and captured in DAI’s financial software. For the final instance, the fraudulent amount was processed and captured in DAI’s financial software. After the fraudulent amount was discovered, DAI asserts that the amount was charged to a non-billable account and was not billed to USAID. However, we have not been able to confirm whether the unallowable cost was actually charged to a non-billable account. DAI has since changed its policy with regards to reporting fraud based on SIGAR’s observations. DAI will now report all instances of fraud, regardless of amount or if it was billed to USAID, to comply with USAID policies and FAR requirements. |

⁸In February 2012, OTI awarded a task order to consolidate East and South program activity under a single task order to Creative Associates International.

⁹DAI formally transmitted these lessons learned in its report: DAI, *Monitoring & Evaluating ASI-East: Key Results from Output Monitoring and Overall Stability Monitoring*, October 23, 2011.

| Issue | Description |
|-----------------------|---|
| Subcontract oversight | <p>DAI's oversight of its subcontract with its security contractor's, Edinburgh International, is limited. The Defense Contract Audit Agency's audit manual notes that prime contractor oversight of subcontractors should 1) include subcontract award, (2) include technical and financial performance monitoring, (3) ensure that indirect rate proposals and annual rate adjustments are submitted on a timely basis (incurred cost proposal), and (4) ensure that payment to the subcontractor for the work accomplished was in accordance with the subcontract terms and based on allowability, allocability and reasonableness principles. DAI did not fully follow this guidance based on our review of documentation and interviews with DAI staff. DAI disputes this characterization, noting that requirements one and two have been met through various contracting and security officials meeting with Edinburgh International officials and reviewing Edinburgh International contract requirements and billings. DAI asserts that it has addressed the third oversight requirement by negotiating Edinburgh International's indirect rate at the beginning of the contract and will adjust the indirect rate at the end of the contract. DAI asserts that Edinburgh International has an adequate billing system that ensures costs billed are allowable, allocable and reasonable. Additionally, DAI reviews Edinburgh International's billings to ensure their accuracy.</p> <p>Despite these cited instances of provided oversight, we found that DAI is not providing adequate oversight as required by the task order because we found no evidence that it is performing yearly reviews of Edinburgh International's overhead rates to determine their reasonableness. In addition, DAI has not been able to provide evidence that it reviewed Edinburgh International's key business systems to ensure that process and internal controls are adequate for determining that the costs Edinburgh International is incurring and billing are allowable, allocable, and reasonable.</p> |

Source: SIGAR analysis.

Monitoring and Evaluation Systems Provide Initial Insights on Program Results and DSF Implementation

Beginning with the April 2010, arrival of its current monitoring and evaluation director, DAI sought to develop a three-tier monitoring and evaluation system based on DSF requirements to assess, among other items, ASI's effect on the overarching strategic goal of bolstering the capacity and legitimacy of the Afghan government at the community level. OTI contracted separately with a third-party provider, QED, which then subcontracted with Altai Consulting, in June 2010, for an independent assessment of program outcomes and impact using a different assessment methodology. Preliminary monitoring and evaluation results as of December 2011 from both efforts show a range of documented outputs and encouraging impact at the program level, while overall stability was judged as being low across ASI-East's ten programming districts. When DAI and Altai Consulting's evaluation efforts are completed later in 2012, OTI and DAI believe they will have the information they need to evaluate ASI's overall impact and the relative success of DSF as a stability programming model. Appendix II contains further details on the DSF and Altai Consulting monitoring and evaluation methodologies and the preliminary results of these efforts.

DSF and Altai Consulting Monitoring and Evaluation Methodologies

The DSF monitoring and evaluation methodology focuses on measuring results at three levels: output, impact, and overall stability.¹⁰ DAI's monitoring and evaluation unit designed and implemented a system that follows the DSF methodology. DAI's monitoring and evaluation staff collected and analyzed data for program output and impact measurement and contracted with RSI Consulting to conduct data

¹⁰Evaluation activities normally focus on outputs, outcomes, and impacts. As noted in our report, the DSF evaluation methodology does not currently address outcomes. Outputs are defined as measurable outputs from program activities such as miles of drainage ditches built or hours of media broadcast each week. Outcomes are defined as the observed effects of the outputs on the beneficiaries of the program such as improved agriculture yields or improved perceptions of the Afghan government. Impact is defined as the degree to which the observed outcome(s) can be attributed to the funded activities.

collection and analysis efforts for measuring ASI's contributions to overall stability. DAI data collection efforts for all three levels will be concluded before the task order ends in September 2012.

Issues and questions addressed by DAI using the DSF model at each level include the following:

- Level 1/output: Have scheduled activities been completed and successfully implemented? Are external factors affecting the implementation of scheduled activities?
- Level 2/impact: Is the intended impact or change being seen in the environment? Do observed changes in the environment represent progress toward stated objectives and a diminishment of the root causes of instability? How are external factors influencing or causing any observed changes?
- Level 3/overall stability: Are the collective efforts (ASI-East and any other programming efforts) to address the sources of instability in a given district leading to improved stability as measured by a standard set of seven indicators? Does trend data over time indicate that the security situation is getting better or deteriorating in a given district?

Altai Consulting monitoring and evaluation consists of four cycles that are scheduled to conclude in June 2012. The first cycle focused on monitoring program outputs. Cycles 2 through 4 will address monitoring, impact, and overall stability questions in two districts for cycle 2 and three districts for cycles 3 and 4.

Reports Show Mixed Results on Output and Overall Stability

DAI issued its first formal report on level 1/output results in September 2011.¹¹ Issued as a “lessons learned” report, the document presents DAI’s analysis of 90 completed program activities which found that these activities had achieved their intended purposes. The report also highlighted success stories that should help guide future programming decisions. The report focused on how to improve (1) activity implementation through community buy-in, physical presence of GIRoA officials, and publicizing projects; and (2) activity operations through adopting the Afghan First Initiative,¹² vetting suppliers and trainers, providing performance feedback, and ensuring that cash payments for work are timely.

In October 2011, RSI Consulting provided DAI with a final report on level 3/overall stability results demonstrating that overall stability in all ten ASI-East districts is relatively low based on the key indicators of stability.¹³ Specifically, the low levels of stability are attributed to security issues within districts, a lack of confidence in the local and national government, and underlying cultural differences between locals and outsiders.

Altai Consulting independent monitoring and evaluation efforts have generally confirmed the preliminary results revealed by DAI’s early monitoring and evaluation efforts.

DAI’s First Impact Assessment Released in January 2012

In January 2012, DAI released its first assessment of the impact ASI-East programming had on nine sources of instability in four districts.¹⁴ The goals of the assessment were to identify stability-related changes in the selected districts over the last 18 months, to examine the factors that explain those changes, and to understand the effectiveness of different programming strategies used in each district.

¹¹DAI, *Lessons Learned Report: Afghanistan Stabilization Initiative-East*, September 19, 2011.

¹²Since March 2006, U.S. military and civilian agencies operating in Afghanistan have taken steps to ensure that a greater number of contracts are awarded to Afghan companies. Over time, these efforts have become collectively known as the Afghan First Initiative.

¹³RSI Consulting, *Overall Stability Assessment in 10 Districts in Afghanistan*, October 2011.

¹⁴USAID published DAI’s assessment in the following document, USAID, *Preliminary Impact Assessment in Four Districts in Eastern Afghanistan: Khogyani, Marawara, Saydabad, and Urgun*, January 16, 2012.

This assessment concluded that ASI-East programming was found to have a positive impact on 5 of the 9 sources of instability. In one case, ASI-East programming was found to have reduced the source of instability. In three cases, the data gathered could not establish a positive or negative effect. The report noted that because data was collected in the middle of programming, results of this assessment are not comprehensive or predictive of the final impact of ASI-East. Although preliminary, these findings offer feedback for ASI-East as it refines its strategy in the final phase of programming and for follow-on application of the DSF methodology.¹⁵

The assessment concluded that DSF is an effective and versatile methodology that allowed it to identify changes in the environment and adjust ASI-East programming decisions accordingly. The assessment also provided recommendations for improved implementation of the DSF including (1) beginning program activities after an area has reached the “clear” stage of the COIN strategy, (2) increasing coordination with the military is needed so programming can start immediately after military operations cease, (3) increasing community involvement by GIRoA, and (4) performing community assessments before programming begins.

Project Outcomes Not Included in DSF Monitoring and Evaluation Methodology

We did not identify methodological flaws or problems with how DAI and Altai Consulting are implementing their monitoring and evaluation efforts. However, we did note that the DSF methodology does not include measuring outcomes. Measuring project outcomes would help implementers gain feedback on how projects are received by the beneficiaries and provide a leading indicator for level 2 impact analysis. Adding project outcomes to level 1 analysis on outputs will allow for earlier feedback and project adjustment to obtain better results.

We also noted that level 3 analysis on overall stability was first reported 28 months into the task order. While the analysis provided valuable information, it would have been better if it had been performed at the beginning of the task order or when stabilization efforts begin in new districts. This would have provided baseline information for subsequent results analysis. This is a key lesson learned for all future stabilization programs using the DSF methodology.

OTI LACKS APPROVED DISENGAGEMENT CRITERIA AND AN OVERALL PROGRAM EXIT STRATEGY TO MOVE DISTRICTS FROM THE HOLD TO BUILD PHASE OF THE COIN STRATEGY

Despite nearly 3 years of program activity, none of DAI’s target districts have transitioned to the “build” phase of the COIN strategy.¹⁶ SIGAR found that approved disengagement criteria for individual districts and an overall transition strategy for the program remain to be developed. OTI Afghanistan has drafted a set of disengagement criteria for districts that could provide a clear basis for deciding to terminate “hold” programming in a given district; however, the draft criteria lack any target indicators or benchmarks to provide the basis for such a decision. These target indicators or benchmarks would likely be tied to the output and impact measures which DAI and OTI’s monitoring and evaluation contractor are pursuing. Under the provisions of the SWIFT III IQC, OTI is to develop an exit strategy for each OTI program

¹⁵The report noted other methodology limitations. The most significant limitation was the lack of baseline information, which made it difficult to compare the situation before the ASI-East program began addressing the sources of instability. In addition, the assessment was conducted during the summer, a period when violence typically increases, which may have influenced respondents’ assessments of stability in their districts. Finally, the ASI-East program was only one of several stabilization programs in the operational districts, other actors may influence the stability objectives ASI-East is designed to achieve. This presented a challenge to attributing observed changes to the ASI-East program.

¹⁶In responding to our draft report, USAID noted that districts in Wardak and Kunar provinces, where ASI-East programming took place, were recently identified as ready for transfer to GIRoA (see app. III).

within 18 months of the program start-up, including the ASI-East program. OTI has not yet developed an exit strategy to guide its programming efforts, which must be integrated with U.S. government and mission-wide transition planning efforts for Afghanistan. However, OTI officials noted that such a transition strategy would be developed in connection with the 3-year extension of the ASI program that began in February 2012.

OTI Lacks Approved Disengagement Criteria and a Program Exit Strategy

OTI programs are designed to be short, targeted, and flexible. In accordance with its SWIFT III IQC, OTI generally plans to exit a country program within 2 years of initiating activity. In Afghanistan, OTI expected that the 3 year ASI effort would lead to at least some districts transitioning from the “hold” to the “build” phase of the COIN strategy. All OTI programs are required to have an exit strategy developed within 18 months of program start-up. Both OTI led program performance reviews of ASI-East program noted the need for OTI to prepare exit criteria and exit strategies to help move districts from the “hold” to the “build” phase of the COIN strategy. This issue was also identified as an area of concern by the USAID Office of the Inspector General in its November 2011 report on the implementation of the ASI program in southern Afghanistan.¹⁷ The report noted that the mission does not have a transition plan and recommended that USAID Afghanistan identify the districts in which it intends to implement post-transition development projects, develop transition plans for districts in which it plans to implement future projects, and close-out programs for districts where it will not implement new projects.

On October 21, 2011, OTI representatives in Afghanistan developed a draft set of disengagement criteria in response to recommendations from the two program performance reviews conducted by OTI and specifically included criteria under which ASI-East may discontinue stability programming in a district. However, the draft lacks target indicators or benchmarks that could provide the basis for applying the broad criteria described in the draft criteria. These target indicators or benchmarks should be tied to the impact and overall stability measures which DAI and Altai Consulting are currently developing.

The OTI official who drafted the disengagement criteria was subsequently re-assigned; however, OTI’s current Country Representative noted the document has not yet been vetted or discussed with Mission or military colleagues at post. OTI officials noted that these draft exit criteria will be finalized in connection with the new ASI task order.

OTI officials noted that an 18-month district exit strategy has not been developed and that no other transition plans have been put in place by the embassy. OTI officials noted that an exit strategy will be developed under the follow-on task order to ASI-East that will combine OTI stability programming efforts for both the South and East under a single task order, which was awarded in March 2012, for a 3 year period. The development of this exit strategy will need to be consistent with any final disengagement criteria OTI develops and carefully coordinated with ongoing civilian and military transition planning efforts.

The issue of disengagement criteria and exit strategy are linked to current and future implementation of the DSF methodology. Responsibility for further development and evaluation of the DSF has been transferred from OTI to USAID Afghanistan’s Stabilization Unit, which will now provide DSF training and future assessments of and enhancements to the methodology. A Stabilization Unit official noted that the Stabilization Unit intends to include a review of the DSF under USAID’s Measuring Impact of Stabilization Initiatives (MISTI) program. MISTI is a \$15-million, three-year program that began in March 2012, which will provide third-party impact assessment and evaluation services for the Stabilization Unit. As part of this effort, the contractor will be expected to evaluate the implementation of the DSF and draw lessons learned.

¹⁷USAID Office of Inspector General, *Audit of USAID/Afghanistan’s Afghanistan Stabilization Initiative for the Southern Region*, Audit Report No. F-306-12-001-P, November 13, 2011.

CONCLUSIONS

As a key building block of the U.S. COIN strategy, stabilization programs such as ASI must succeed if the United States is to achieve its short and long-term military and economic support drawdown goals. As the pilot implementation of the DSF methodology, the ASI-East program provides a critical opportunity to extract lessons learned for application to follow-on stabilization awards which will use the DSF methodology. Key challenges facing the implementation of ASI-East's stabilization efforts and related follow-on efforts include (1) relatively low project spending levels and high operating costs, (2) certain procedural deficiencies with key DAI business systems and certain questioned costs, (3) the implementation and assessment of the DSF programming methodology, and (4) the lack of approved district-level disengagement criteria and a country-wide exit strategy for OTI's programming efforts. Additionally, it is noted that the ASI-East program has not yet transitioned any target districts from the "hold" phase to the "build" phase of the COIN strategy.

RECOMMENDATIONS

To help ensure that the ASI-East program is implemented within the terms of OTI's IQC and the ASI-East task order and applicable cost principles, SIGAR recommends that USAID/DCHA/OTI in Washington, D.C., in conjunction with OTI Kabul mission staff:

1. Review the ASI-East program spending patterns to determine if the current spending levels represent a reasonable balance between program spending versus operating costs.
2. Instruct the contractor to address and correct the identified timekeeping and billing internal control weakness and procedural shortcomings.

To ensure that ASI-East program costs are allowable, allocable, and reasonable, we recommend that the Contracting Officer in Washington, D.C.:

3. Review the more than \$590,000 in questioned costs outlined below and recover these funds as deemed appropriate:
 - a. The \$500,000 in potentially unallowable costs associated with DAI's sub-contract award to Altai Consulting for monitoring and evaluation services.
 - b. The \$3,400 in unallowable shipping costs associated with a different DAI contract.
 - c. The \$50,000 in wasteful spending on insurance cost for non-operational armored vehicles.
 - d. The \$38,500 in wasteful spending on insurance for leased armored vehicles.

To improve ASI-East program performance oversight, monitoring, and evaluation systems and assess the overall utility and success of the DSF programming model, SIGAR recommends that USAID/DCHA/OTI in Washington, D.C., in conjunction with OTI Kabul mission staff and the Stabilization Unit Chief, as appropriate:

4. Incorporate an assessment of activity outcome results into level 1/output measurement of the DSF monitoring and evaluation methodology and perform level 3/overall stability monitoring and evaluation when entering new districts.
5. Provide input to the Stabilization Unit Chief to produce an interim and final lessons learned summary of the ASI-East program's implementation of the DSF to be considered by senior USAID, military, and State Department officials as future decisions are made regarding the application of the DSF methodology to other stabilization programs.

To help ensure future progress toward transitioning districts to the “build” phase of the COIN strategy, SIGAR recommends that USAID’s Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Transition Initiatives in Washington, D.C., in conjunction with OTI Kabul mission staff:

6. Finalize draft disengagement criteria to facilitate programming decisions at the district level and develop an exit strategy to guide overall OTI programming decisions at the country level.

COMMENTS

In commenting on a draft of this report, USAID/OTI generally concurred with the recommendations and noted the steps that it has taken or will take to address them. USAID also provided some general and technical comments and clarifications, particularly regarding the role of ASI-East in the larger COIN strategy, which we incorporated into the final report, as appropriate. USAID’s comments and our response to these comments are reproduced in appendix III.

In response to recommendation one, USAID/OTI concurred with the recommendation and stated that reviews have taken place during the course of the program and will continue for the remainder of the program. OTI provided clarification of the terminology we used in the report and recommendation regarding our characterization of programming spending levels. In response, we incorporated the distinction between program costs versus operational costs, as opposed to program costs versus overhead costs.

Regarding the second recommendation, USAID/OAA requested clarification of the guidance that was used. We provided the guidance that we used in SIGAR comment six in appendix III.

In response to recommendation three, USAID/OAA concurred with the recommendation and has taken or will take steps to recover any money that is determined unallowable. USAID specifically stated that (1) the \$500,000 in questioned contract costs was allowable and no recovery action was required; (2) the \$3,400 in questioned shipping costs has already been recovered; (3) the \$50,000 in questioned insurance costs is currently being reviewed by the contracting officer; and (4) the \$38,500 in questioned insurance costs is currently being reviewed by DAI and any overpayment adjustments made by the insurance carrier will be recovered.

In response to recommendation four, USAID/OTI concurred that level 3 (overall stability) analysis should be performed when entering a new district, but did not concur that outcomes should be added to level 1 analysis because they do not have ownership of the DSF. In addition, USAID/OTI stated that the ASI program has more robust analysis at the level 1 (output) stage, which provides some level of outcome monitoring, and is looking at options to most effectively measure outputs, outcomes, impact, and overall stability in future programming and further noted that MISTI will facilitate this process. We agree that OTI no longer has ownership of the DSF and updated our recommendation to also include the Stabilization Unit, given the collaborative relationship between the DSF coordinator and the Stabilization Unit.

In response to recommendation five, USAID/OTI concurred that lessons learned from the DSF should be shared with other stakeholders and implementers. USAID/OTI did not concur with the recommendation to develop a lessons learned DSF summary, stating it was a duplicative effort under the Stabilization Unit’s ongoing efforts. We believe that OTI remains the appropriate office to produce a comprehensive DSF lessons learned study, given its role and mission. However, we updated our recommendation to include the Stabilization Unit, given its ongoing effort with the MISTI program to compile lessons learned on all programs.

In response to recommendation six, USAID/OTI concurred that a disengagement strategy at the district level and an exit strategy at the country level should be developed. USAID/OTI noted that it has begun to draft district disengagement criteria and will finalize the criteria under a new OTI program. OTI stated

that it would ensure that the disengagement criteria are finalized prior to May 2013, allowing for an informed assessment of when OTI should disengage from a particular district/area of operation. Decisions to disengage will take into account whether OTI can guide or support follow on programming and the Administrator's Stabilization Guidance and will include discussions pertaining to GIRoA transition plans for provinces. Additionally, USAID will work with the Embassy mission to determine an appropriate country level disengagement strategy.

APPENDIX I: SCOPE AND METHODOLOGY

This report provides the results of the Office of the Special Inspector General for Afghanistan Reconstruction's audit of USAID's Afghanistan Stabilization Initiative-East program to implement small-scale community development and media activities to local implementers in target districts for the 36 month period from June 26, 2009 through June 25, 2012. This report assesses to what extent (1) expended ASI-East costs were allowable, allocable, and reasonable; (2) performance oversight, monitoring, and evaluation systems have been implemented; and (3) progress has been made toward transitioning districts to the "build" phase of the COIN strategy. We reviewed documents covering the period June 2009 through June 2012.

To determine if incurred project costs were allowable, allocable, and reasonable, we examined invoices, evaluated timekeeping and billing policies and procedures related to internal controls, and had our forensic team analyze DAI's financial data. With the invoice review, we judgmentally selected 377 invoices from 6 other direct cost expense types for testing. For each invoice, we determined whether adequate support documentation existed and required approvals were obtained. In addition, to access the reliability of computer-processed data, we (1) interviewed officials to discuss the reliability of the data; (2) conducted testing and checked for missing data, erroneous or incomplete entries, and duplicates; and (3) compared system generated data with documents in the project files. For the timekeeping and billing systems, we interviewed DAI staff in Kabul, Afghanistan to gain an understanding of how the policies and procedures worked, obtained policy and procedure manuals, and performed walk through testing. We compared the results and noted any discrepancies. We also reviewed the reasonableness of DAI's application of indirect cost rates and fixed fees. Additionally, we obtained and reviewed DAI's external auditors' management report for the two most recent audits performed and noted any internal control weaknesses identified. We investigated any anomalies to determine if the costs were properly recorded.

To determine whether performance oversight, monitoring and evaluation systems had been implemented, we examined the task order to determine the reporting requirements. We interviewed USAID officials in Kabul, Afghanistan and the contracting officer in Washington, DC to determine the reports that were being sent and received and compared them to the reporting requirements. Additionally, we interviewed the contracting officer and COTR in Washington, DC to determine how they provide oversight to the program. We examined 20 judgmentally selected activity folders to determine if they had all the necessary reporting documentation, the proper USAID signatures noting the activity was complete and documentation of completion. We also examined DAI's performance management system to determine if it met the task order requirements and if it was performing adequately. We examined USAID's third party evaluator and the reports produced to determine what oversight and performance reporting was being provided. Based on the third party evaluator's reports, we determined what program challenges were being encountered and how USAID and DAI were addressing the challenges.

To determine if progress has been made toward transitioning districts to the "build" phase of the COIN strategy, we examined the task order to identify any transition requirements and compared it to work performed by DAI. We also interviewed USAID and DAI officials to note if any districts covered by the program had transitioned into the next phase. Finally, we analyzed the DAI 90 activities completed as of September 2011.

We reviewed the financial data, including invoice and payment data, provided by USAID and DAI and determined that the data provided was sufficiently reliable for the purposes of our audit. We also assessed the adequacy of internal controls over DAI's timekeeping and billing systems and procedures through tests of selected transactions, interviews and physical observations.

We conducted work in Kabul, Afghanistan, and Washington, D.C., from May 2011 to June 2012, in accordance with generally accepted government auditing standards. These 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 objectives. We believe the evidence obtained provides a

reasonable basis for our findings and conclusions based on our audit objectives. The 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: PRELIMINARY MONITORING AND EVALUATION RESULTS

Tables I and II outline DAI and Altai Consulting monitoring and evaluation systems and preliminary results through January 2012.

Table I: DAI Monitoring and Evaluation Preliminary Results

| Level | Description | Preliminary Results |
|--|--|--|
| Level 1 (program outputs) | DAI collects output information for all awarded activities in its TAMIS database and generates Final Monitoring Reports for each completed activity. A DAI monitoring and evaluation staff member prepares a lessons learned report using data from the TAMIS system for a sample of 90 completed activities. | <p>After each activity is completed, DAI produces a Final Monitoring Report, which is used to collect data at the close of each activity. This report provides detailed information about the outputs and activities, the implementation process, challenges encountered and lessons learned, the grantee's performance, and project stakeholders' assessments of the activity's overall performance.</p> <p>In September 2011, DAI completed its first lessons learned report that analyzed 90 closed activities. This report found that, overall, activities are successful at achieving intended purposes. The report also highlighted methods of implementation that were successful and should be used in the future to ensure that other activities achieve their goals and are successful.</p> |
| Level 2 (program impact) | <p>DAI started an assessment of the impact of clusters of activities against specific sources of instability through case studies. These case studies examine the outcomes of projects on district areas. The impact assessment is entirely qualitative and is gathering data from a range of stakeholders including program staff, district teams, residents of the district, and stakeholders in stability working groups and provincial reconstruction teams.</p> <p>A DAI monitoring and evaluation staff member managed the research and production of the case studies which are designed to note observable changes in stability and identify which program strategies have and have not succeeded.</p> | <p>DAI released the preliminary results of its impact assessment in four districts in January 2012. In 5 of 9 cases, ASI-East programming was found to be a positive factor. In one case, ASI-East programming was found to be a mitigating factor. In 3 cases, the data could not establish a positive or negative effect.</p> <p>Additionally, the assessment found that the DSF methodology allowed for identifying sources of instability and adjusting programming to meet address them. The assessment recommended (1) that ASI-East programming should consider the COIN status of districts and restrict high visibility projects until districts are moved from the "shape" phase, (2) more coordination with the military so that projects follow military operations for better effectiveness, and (3) increased community involvement of government officials.</p> |
| Level 3 (overall progress toward stability) | DAI, in concert with OTI, developed seven district-level stability indicators within the DSF and selected methods for their measurement. The purpose is not to measure direct impact of DAI projects, but rather to identify overall stability in the areas in which DAI operates. To standardize data collection, DAI awarded a subcontract to an Afghan research firm, RSI Consulting, to collect data on the 7 indicators across 10 districts. | In October 2011, RSI Consulting provided DAI with a final report for ten districts indicating that overall stability in all ten districts is negative based on the key indicators of stability. Specifically, the decline in stability is attributed to security issues within districts, a lack of confidence in the local and national government and underlying cultural differences between locals and outsiders. |

Source: SIGAR Analysis of DAI M&E Documents

Table II: Altai Consulting Monitoring and Evaluation Preliminary Results

| Category | Description | Preliminary Results |
|---|--|---|
| Cycle 1 (monitoring) | <p>OTI contracted with QED, which subcontracted with Altai Consulting, to perform third party monitoring of DAI's projects in a new innovative way.</p> <p>In October 2010, Altai issued an inception report which summarized a plan to develop methodological guidelines for M&E. Altai primarily relied upon physical project visits, perception surveys and case study reviews of completed projects.</p> | <p>In March 2011, Altai released its first cycle report that examined two districts in the East. This report found that across all districts, ASI projects generally addressed the grievances of the community, mostly addressed the priority problems of the community, built governance capacity, and were being implemented according to their designed plan.</p> |
| Cycle 2 (monitoring/impact/overall stability) | <p>In cycle 2, Altai had started an assessment of the impact of clusters of activities against specific sources of instability through case studies. These case studies examine the outcomes of projects on district areas. The impact assessment is entirely qualitative and is gathering data from a range of stakeholders including program staff, district teams, residents of the district, and stakeholders in stability working groups and provincial reconstruction teams.</p> | <p>In July 2011, Altai released its cycle 2 report for the same two districts examined previously. The report found that overall projects were generally received well from the communities. The report provided insights into community perceptions, provided lessons learned, and noted that projects need a better association with the Afghan government for increased credibility.</p> |
| Cycles 3 and 4 (monitoring/impact/overall stability) | <p>Cycles 3 and 4 will apply the same methodology used in cycle 2, with further development of tools.</p> | <p>Reports planned in two districts (plus one new district and five new villages) in January/February 2012 and May/June 2012.</p> |

Source: SIGAR Analysis of Altai Consulting monitoring and evaluation documents.

APPENDIX III: COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

June 6, 2012

TO: Jenniffer F. Wilson, Deputy Assistant IG for Audits
Special Inspector General for Afghanistan Reconstruction
(SIGAR)

FROM: Robert Jenkins, Director, DCHA/OTI 

SUBJECT: Draft SIGAR Report entitled “Progress Made Toward Increased Security under USAID’s Afghanistan Stabilization Initiative–East Program, but Transition to Long Term Development Efforts Not Yet Achieved”, (SIGAR 12-11)

REF: SIGAR Transmittal email dated 5/16/2012

Thank you for providing the Bureau for Democracy, Conflict and Humanitarian Assistance’s Office of Transition Initiatives (DCHA/OTI) with the opportunity to review the subject draft audit report. Discussed below are our comments on the recommendations and contents of the report.

USAID’S (DCHA/OTI) GENERAL COMMENTS ON THE DRAFT REPORT

SIGAR’s focus on progress toward increased security in the title of the audit does not accurately reflect the objectives of Afghanistan Stabilization Initiative (ASI) East. Civilian security is only one of the indicators under the District Stability Framework (DSF) that contributes to an overall outcome of stability. Under the DSF, civilian security and perceptions of security, along with five other indicators, are used to measure stability in a district. OTI programming does not directly address security; rather OTI coordinates closely with Coalition and Afghan security forces to ensure that security conditions are appropriate for stabilization programming in an area.

While ASI does serve as a tool for the U.S. Government (USG) to “hold” areas, the task order outlines that longer term development is not within the scope of the ASI task order.

See SIGAR comment 1.

See SIGAR comment 2.

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OTI does not dispute the accuracy of SIGAR's finding that despite nearly three years of program efforts, none of ASI-East's target districts have transitioned to the "build" phase of the U.S. Counterinsurgency (COIN) strategy. However, districts in Wardak and Kunar where ASI-East has programmed were announced on May 13, 2012 by President Karzai as Tranche 3 designated transition areas, meaning these areas were identified as ready for transfer to GIRA responsibility. In Wardak, OTI will be transitioning stabilization programming to SIKa, a program intended to bridge stabilization to a long term development program.

See SIGAR comment 3.

OTI would like to clarify the role ASI-East plays in the larger COIN strategy. The ASI-East aims to support the transition from "hold" to "build" in the districts, where its programming is a small component of the COIN strategy, and as such, the program by itself is not in a position to independently drive the successful transition from hold to build for entire districts or make decisions regarding the placement of long term development programming.

See SIGAR comment 4.

As recognized by the Administrator's Stabilization Guidance issued in January 2011, a locality that is stable today may be unstable tomorrow, and USAID needs to clearly identify how a program supports the advancement of a community along the stability continuum. Based on this guidance, ASI has used the DSF to identify activities to program against sources of instability in an effort to solidify stabilization gains for ASI-East districts.

OTI is committed to sharing lessons learned about stabilization program implementation using the DSF and agrees with SIGAR's assessment of the importance of continuing to share these lessons with the wider USG audience. While OTI will continue to engage in these discussions and provide additional information and reports as requested by the Stabilization Unit, the DSF is not owned by OTI, and as such, OTI cannot take unilateral actions to amend the framework without the involvement of, among others, the Stabilization Unit at USAID/Afghanistan that will lead support for DSF going forward. DSF is a tool used by several USAID programs, as well as used for USG civilian and military planning and stabilization efforts in Afghanistan and other countries.

While the recommendations do not directly suggest any action regarding the administrative and management issues relating to program oversight, OTI feels it is important to address the three issues outlined in Table 1 shown in Page 8 of the report. With regard to two of the issues, Data Validity Concerns and Fraud Reporting, corrective actions have already

been taken as discussed in the following paragraphs. On the third issue, Subcontract Oversight, OTI has communicated the concerns to the ASI-East implementing partner, Development Alternatives Inc. (DAI), and will continue to work with DAI to ensure the costs incurred under the Edinburgh International (EI) sub-contract are allowable, allocable and reasonable.

OTI concurs with SIGAR's assessment that data validation should occur at the field level, and that more frequent and in-depth data verification should take place to ensure that DAI maintains and uses the USAID/OTI activity database as the "backbone" to generate, develop, manage, monitor, evaluate and report on program activities. The Contracting Officer's Representative (COR), based in Washington DC, will continue to perform weekly data validity checks. The OTI field team has been performing additional routine checks as a result of SIGAR's findings.

As outlined in the report, DAI has already changed its policy on reporting fraud based on SIGAR's recommendations. DAI will notify the Contracting Officer (CO) of any future incident regardless of the amount. Within its Afghanistan Operations Office, which supports the ASI-East program, DAI has maintained a full-time auditor, a fraud prevention team, and compliance managers. As outlined in the report, two of the incidents of fraud were never billed to USAID, and in the third case, the charge was reimbursed to OTI, and therefore does not require further action.

PART I: COMMENTS ON SIGAR RECOMMENDATIONS

To help ensure that the ASI-East program is implemented within the terms of OTI's IQC and the ASI-East task order and applicable cost principles, SIGAR recommends that USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Transition Initiatives in Washington, D.C., in conjunction with OTI Kabul mission staff:

- 1. Review the ASI-East program spending patterns to determine if the current spending levels represent a reasonable balance between program spending versus overhead costs.*

DCHA/OTI Comments:

OTI concurs with this recommendation. This review has taken place during the course of the program and OTI will ensure to continue to

review program and operations spending for the remainder of the task order.

OTI would like to clarify the terminology used in Recommendation 1. The spending levels reviewed by SIGAR, and outlined in the report, represent program versus operational costs, as opposed to program versus overhead costs. The distinction between these two is of significant importance, as overhead is typically referenced narrowly to mean the costs of the headquarters of an implementing partner.

In the case of ASI-East, the operational costs include all spending that is required to implement and manage a program in Afghanistan (local Afghan and expatriate staff implementing and monitoring stabilization activities in ASI-East's target districts), in addition to overhead. USAID, in an action memo dated August 1, 2006 for the Counselor, has determined that operational or administrative costs (including normal costs of doing business and overhead type costs) incurred in support of a contractor implementing USAID-funded projects are considered to be program costs. Therefore, computing an "implied spending ratio" of program activities to operational costs is not valid.

OTI has reviewed the program spending patterns through financial forecasting processes conducted in coordination with DAI, and more directly through the bi-monthly review of invoices, over the course of the program. DAI and OTI have discussed program and operational spending at meetings held both in Kabul and Washington DC, most recently in advance of the incremental funding completed at the beginning of 2012. An additional review is currently taking place with an updated pipeline provided by DAI to OTI at the beginning of May 2012.

2. ***Instruct the contractor to address and correct the identified timekeeping and billing internal control weakness and procedural shortcomings.***

DCHA/OTI Comments:

See SIGAR
comment 5.

OTI has reviewed the timekeeping and billing internal controls deficiencies outlined by SIGAR and requests clarification on which FAR, AIDAR, ADS guidance was used to determine the deficiencies in DAI's processes to ensure OTI and DAI can more adequately address the noted deficiencies. Once this has been established, the cognizant CO will require DAI to formally advise DCHA/OTI of actions it has taken or plans to take to address the internal control weaknesses. Upon receipt of information, the CO will make a determination on the adequacy/acceptability of DAI's corrective actions where required.

See SIGAR
comment 6.

To ensure that ASI-East program costs are allowable, allocable, and reasonable, SIGAR recommends that the Contracting Officer in Washington, D.C.:

3. Review the \$592,000 in questioned costs outlined below and recover these funds as deemed appropriate:

- a. The \$500,000 in potentially unallowable costs associated with DAI's sub-contract award to Altai Consulting for monitoring and evaluation services.*
- b. The \$3,400 in unallowable shipping costs associated with a different DAI contract.*
- c. The \$50,000 in wasteful spending on insurance cost for non-operational armored vehicles.*
- d. The \$38,500 in wasteful spending on insurance for leased armored vehicles.*

M/OAA Comments:

The Office of Acquisition and Assistance in the Bureau for Management (M/OAA) at USAID/Washington agrees with the recommendation and has taken the following actions:

Item (a): The DCHA/OTI Contracting Officer has reviewed the allowability of the \$500,000 questioned costs associated with DAI's sub-contract award to Altai for monitoring and evaluation services, and has determined that these costs are allowable, per FAR Clause 52-216-7, Allowable Cost and Payment under the base SWIFT III IQC. Therefore, no recovery action is required.

See SIGAR
comment 7.

Item (b): The \$3,400 questioned shipping costs associated with a different DAI contract were credited to OTI in DAI's February 2012 invoice and as such, have already been recovered.

Item (c): The Contracting Officer is conducting a review to determine the allowability of the \$50,000 insurance cost and if any recovery of funds is required.

Item (d): The Contracting Officer has reviewed the \$38,500 questioned insurance costs for leased armored vehicle. DAI's insurance carrier bills DAI in December of each year for the expected insurance costs of the upcoming year. The cost is based on the number of vehicles currently in the project's possession. As vehicles are added, dropped, or replaced during the coverage year, DAI reports the adjustments to the insurance carrier accordingly. In April/May of the next year, the insurance carrier reconciles the costs for the previous year, crediting over-payment or billing for under-payment.

For ASI-East, DAI received a reconciled invoice in May 2011 for the insurance costs in 2010. For the true insurance costs for 2011, DAI is currently working with the insurance company to reconcile the insurance charges. Any overpayment will be credited to DAI and in turn, to USAID. When this adjustment occurs, the COR for ASI-East will review to ensure that the insurance paid were for vehicles being utilized by the project. Final determination on the allowability of the cost will then be made by the Contracting Officer and appropriate recovery action, if needed, will be taken.

4. Incorporate an assessment of activity outcome results in level 1/output measurement of the DSF monitoring and evaluation methodology and perform level 3/overall stability monitoring and evaluation when entering new districts.

DCHA/OTI Comments:

While OTI concurs with the recommendation to perform level 3/overall stability monitoring when entering new districts, OTI does not concur with the recommendation to incorporate activity outcome results in level 1/output measurement.

See SIGAR comment 8.

Due to the fact that the DSF methodology is not owned by OTI and is used by several different entities, OTI cannot take unilateral action to amend the monitoring and evaluation methodology in the DSF to include activity outcome results in level 1/output measurement. While OTI cannot make such a change, OTI is, however, looking at options to most effectively measure outputs, outcomes, impact and overall stability in future programming. The level 1 process conducted by ASI is more robust than traditional output monitoring that only records quantitative outputs of activities.

While this does not measure short term change after each activity, it does provide a comprehensive understanding of the success of the implementation of the activity, which provides some parts of outcome monitoring. In addition, the level 2 process (impact assessment) conducted by ASI tracks the impact of a stability objective targeted by a number of small grant activities. OTI has found that the combination monitoring and evaluation under level 1 and level 2 processes is a comprehensive way to determine the effectiveness of OTI programming.

OTI agrees that assessing overall stability when entering a district is a best practice to contribute to an understanding of the baseline stability of a district, and to facilitate monitoring changes to stability in particular districts over time. The new Stabilization Unit Monitoring and Evaluation program, Measuring Impact of Stabilization Initiatives (MISTI), will monitor overall stability across 50-70 districts nationwide.

The data will be used to develop stability baselines and identify trends in districts where there is USAID Stabilization programming, including Community Cohesion Initiative (CCI), Stabilization in Key Areas (SIKA) and Community Development Program (CDP). OTI's new program, CCI, was only recently started (March 2012), making it unrealistic to complete a comprehensive study of overall stability upon entering some of the first districts in which it will operate. As MISTI becomes operational in CCI districts, this information will be used to inform OTI programmatic decisions and program effects.

See SIGAR
comment 8.

5. Produce an interim and final lessons learned summary of the ASI-East program's implementation of the DSF to be considered by senior USAID, military, and State Department officials as future decisions are made regarding the application of the DSF methodology to other stabilization programs.

DCHA/OTI Comments:

OTI agrees with the recommendation to share lessons learned from ASI-East's use of the DSF with senior USAID, military and State Department officials to inform future decisions. However, OTI does not concur with the recommendation to "produce an interim and final lessons learned summary" as this will duplicate USAID/Afghanistan Stabilization Unit's ongoing efforts to compile DSF lessons learned.

In November 2011, USAID/Afghanistan's Stabilization Unit put in place a DSF Coordinator to facilitate DSF training and lead efforts to expand the use of DSF within the Mission. The DSF Coordinator collaborates with the Stabilization Unit, USAID implementing partners and other key stakeholders to review and amend the methodology as required. The DSF Coordinator is also responsible for the documentation and distribution of lessons learned to key stakeholders in order to inform the future application of the DSF methodology.

OTI has contributed, both formally and informally, to USAID/Afghanistan's initiative to compile lessons learned from program design and implementation using DSF. In November 2011, ASI-East hosted a "DSF lessons learned summit" where key lessons learned from DSF implementation and training were shared with USAID and military colleagues.

In March 2012, ASI-East was a core contributor to the DSF summit hosted by the Stabilization Unit. USAID and its implementing partners were in attendance. DAI and OTI also contributed to the report drafted by Development Transformations at the request of USAID/Washington's Civil Military Coordination (formerly Office of Military Affairs) to collect lessons learned and to provide recommendations on the standardization of DSF, among other

See SIGAR comment 9.

objectives. These three specific instances are in addition to the informal contributions of OTI and DAI staff.

The plans for MISTI include conducting an evaluation of DSF that will be shared with senior USAID, military and State Department officials to inform future decisions regarding the application of the DSF methodology to other stabilization programs.

Through the DSF coordinator at the Stabilization Unit, OTI will continue to feed into DSF methodology discussions for the MISTI evaluation and other efforts to determine DSF best practices. Given that USAID/Afghanistan is already working on the documentation of DSF lessons learned, we believe that it is not necessary for OTI to produce a separate summary.

To help ensure future progress toward transitioning districts to the "build" phase of the COIN strategy, SIGAR recommends that USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Transition Initiatives in Washington, D.C., in conjunction with OTI Kabul mission staff:

6. Finalize draft disengagement criteria to facilitate programming decisions at the district level and develop an exit strategy to guide overall OTI programming decisions at the country level.

DCHA/OTI Comments:

OTI concurs with this recommendation.

As noted in the report, OTI has already undertaken efforts to draft district disengagement criteria and will finalize the criteria under the new OTI program, CCI. Where appropriate, OTI will aim to exit a district/area of operation between 12 and 18 months from the start-up of grant activities in that area. With new programming beginning under the new task order in May 2012, OTI will ensure that disengagement criteria is finalized prior to May 2013, allowing for an informed assessment of when OTI should disengage from that particular district/area of operation.

The criteria and decision parameters will be based on a preponderance of evidence, not complete success, and will take into account whether

and how OTI can guide and/or support any follow on programming. Criteria will also take into account the Administrator's Stabilization Guidance, which recognizes that since the operating environment is extremely fluid, USAID must poise platforms and contingency resources to rapidly expand or shift programming as opportunities arise. The review of the draft exit criteria will include discussion on how to set conditions for, or work through, GIRoA transition plans for the provinces.

OTI will work with the mission to determine an appropriate country level disengagement strategy.

PART II: TECHNICAL COMMENTS

With the exceptions noted in our above responses to the SIGAR recommendations, DCHA/OTI agrees with the contents of the report subject to the following clarification and corrections.

1. On page 2, SIGAR refers to OMB Circular A-122 as reference for the definition of allowability, allocability and reasonableness of costs. DCHA/OTI notes that the cost principles outlined in OMB Circular A-122 apply to non-profit organizations. Since, DAI is a for-profit firm and the award for ASI-East is a contract, we suggest that SIGAR cite Part 31 – Contract Cost Principles and Procedures of the Federal Acquisition Regulations (FAR), more specifically FAR 31.103 – Contracts with Commercial Organizations.
2. On pages 3 and 5, SIGAR references the “burn-rate” approach to program spending and states that this approach is “typically used by other assistance programs.” In USAID/OTI’s informal technical comments provided to SIGAR on April 9, 2012, it was clarified that the “burn-rate” approach is not a USAID programming approach. It was explained that burn-rate analysis is a tool used by USAID for pipeline management. Should SIGAR decide to keep the terminology in the report, we reiterate our request to further explain the phrase “burn-rate” approach. As used in the report, it seems to imply that USAID programs in general are intended to spend funds for the sake of spending them fast without regard for results.
3. On page 6, last paragraph, SIGAR states “DAI and OTI implemented program oversight and monitoring and evaluation systems through a variety of means, including a “grants under contract” approach...” It should be noted that “Grants Under Contract” is not a program oversight nor a monitoring and evaluation system. Rather, it is an implementation tool that allows the contractor to execute grants with non-governmental organizations (non-profits or for-profits).
4. On page 9, under the column “Description”, SIGAR references the Defense Contract Audit Agency’s (DCAA) audit manual as basis for citing DAI’s lack of oversight of its security contractor. We request that SIGAR verify if the DCAA criteria are embodied in

See SIGAR comment 10.

See SIGAR comment 11.

See SIGAR comment 12.

See SIGAR comment 13.

- 12 -

the DAI contract standard provisions, applicable USAID policies or FAR sections as regards sub-contracts. If so, we suggest that SIGAR cite specific regulations or contract provisions that DAI did not comply with the oversight of its subcontractor.

cc: KYamashita, USAID/Afghanistan
CDDEA

The following are SIGAR's responses to USAID /DCHA/OTI's letter dated June 6, 2012:

1. We replaced the word "security" with "stability" in the report title.
2. Our draft report acknowledged that programming under the ASI-East project pertained to short term stability programming and is meant as a precursor to longer-term development programming.
3. We updated the report to include the reference to Kunar and Wardak districts in footnote 16.
4. We provided additional clarification of ASI-East's role in the overall COIN strategy in footnote 1.
5. SIGAR updated the terminology in the report from overhead to operational expenses. However, we segregated programming costs from all other operational costs to highlight the amount of expenditures that went directly toward activity level spending and the amount that went toward supporting those activities. As noted in our report, the ASI-East task order, at the time of award, stipulated an implied spending ratio of 55 percent on program activities and 45 percent on operating costs. Therefore, we do not believe it is invalid to segregate these costs to highlight the spending patterns.
6. As part of our review of DAI and its financial reporting to USAID, we reviewed DAI's timekeeping and billing systems to ensure that they were designed and functioning properly and effectively with respect to preventing, detecting, and correcting internal control deficiencies. Based on General Accounting Office *Standards for Internal Controls in the Federal Government, dated November 1999*, we identified minor deficiencies in DAI's internal control that we believed warranted USAID's attention. Taking corrective actions now will help mitigate systemic or more widespread occurrences of these or other deficiencies. The following lays out the guidance we used to address the recommendation regarding the time keeping and billing internal control weaknesses and procedural shortcomings.
 - a. SIGAR believes that increasing the frequency of formal supervisory review from monthly to semi-monthly of Afghan timecards would help mitigate the potential of fraudulent entry. Increasing supervisory review of timecards is based on best practices and is consistent with the procedures used for ex-patriot staff.
 - b. Having complete and available supporting documentation attached to paid invoices is required by FAR 52.215-2. Doing so helps facilitate the timeliness and accuracy of invoice retrieval for questions regarding claims, internal or external audits, or other procedural requests.
 - c. SIGAR maintains that DAI should have performed a cost analysis, once security was in place, to determine the reasonableness of the cost to lease the items. This practice is consistent with FAR 31.201-3, "Determining Reasonableness." A cost analysis would have aided DAI in determining whether the items it leased would have been cheaper to purchase over the course of the project.
7. Based on M/OAA's response that it had taken actions to determine that the \$500,000 questioned costs are allowable, we requested the analysis that the DCHA/OTI Contracting Officer used to make this determination. M/OAA provided its response to our request on June 20, 2012, which stated that it believed the cost to be allowable based on FAR clause 52.216-7, Allowable Cost and Payment and FAR 31.201-2, Determining Allowability. In his response, the Contracting Officer noted that (1) the costs were reasonable and in-line with other M&E studies conducted by Altai and others in Afghanistan; (2) the costs were allocable to the task order and; (3) the terms of the task order and IQC were followed with regard to subcontracting. We do not dispute the Contracting Officer's characterization of the reasonableness of the costs; however, the response does not address the lack of subcontractor oversight, as discussed on page 5 of the report. The

mitigation plan that was implemented by OTI between DAI and Altai limited DAI's ability to provide adequate subcontractor oversight as required by FAR 42.202(e)(2). DAI's role in administering the subcontract was essentially limited to reviewing and approving invoices for payment, and did not allow for normal oversight responsibilities. Therefore, we continue to question whether the over \$500,000 was allowable.

8. We recognize that OTI no longer has ownership of the DSF and that it is being used by several different entities. As such, we updated Recommendation 4 to also include the Stabilization Unit Chief, so that OTI and the Stabilization Unit may work together, along with any other stakeholders, to amend the DSF. As noted in our report, we continue to believe that adding project outcomes to level 1 analysis allows for programming strategy to adapt faster based on continuous feedback instead of waiting for level 2 impact analysis to be performed.
9. We recognize that the Stabilization Unit has an ongoing effort with the MISTI program, which is in its beginning stages, to compile lessons learned on all programs. However, according to a USAID Stabilization Unit official, the MISTI task order would be amended to remove the ASI-East program from the Stabilization Unit's evaluation of stabilization programs and the Stabilization Unit and OTI would rely on an external contractor, instead of its own internal assessment, to provide feedback on the ASI-East program. Therefore, we maintain that OTI remains the appropriate office to produce a comprehensive DSF lessons learned study. The DSF became operational under OTI and remained the primary ASI-East programming tool for over 2 years while training over one thousand civilian and military personnel. Given the Stabilization Unit's role, since February 2012, in the ASI-East program, we revised recommendation five to also include the Stabilization Unit Chief.
10. The reference to OMB Circular A-122 was removed.
11. We believe the notion of the burn rate approach provides important context in light of the method used to program the first 49 grant activities by December 2009 for ASI-East under the military Tactical Conflict Assessment and Planning Framework. The shift toward the DSF approach to programming, as opposed to the burn rate approach, is a more tactical approach and was a significant undertaking on USAID's part to steer away from the use of burn rate methods where programs were slow to start during their implementation phase.
12. We updated the report to reflect "Grants Under Contract" as a tool.
13. The DCAA manual provides guidance to audit agencies—in this case, to determine if a contractor performed adequate oversight over a subcontractor. FAR 42.202(e)(2) requires that prime contractors provide oversight over their subcontractors.

(This report was conducted under the audit project code SIGAR-047A).

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