United States Department of Agriculture

# Office of Inspector General

# Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan



50601-0002-16

February 2014

**Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan**

**Audit Report 50601-0002-16**

## What Were OIG's Objectives

The overall objective was to evaluate FAS' monitoring and oversight controls over Section 632(a) transfer of funds for activities in Afghanistan, and evaluate FAS' management controls to ensure that funds given to Volunteers for Economic Growth Alliance (VEGA) in Afghanistan were used in accordance with its cooperative agreement.

## What OIG Reviewed

We evaluated FAS' overall controls over funds transferred from USAID, and monitoring of funds provided to VEGA, which received the highest level of FAS funding. USDA awarded a total of 11 projects to different organizations.

## What OIG Recommends

We recommend that FAS forego accepting further Section 632(a) funds until it has fully implemented a formal monitoring and evaluation process and a grants management structure. FAS also needs to implement the recommendations outlined in the consulting firm's review.

# OIG evaluated FAS' monitoring and oversight controls over Section 632(a) funds for capacity-building projects in Afghanistan.

## What OIG Found

In June 2010, the U.S. Agency for International Development (USAID) transferred $86.3 million to the Department of Agriculture (USDA) for capacity-building activities in Afghanistan. The Office of Inspector General (OIG) found that senior managers at the Foreign Agricultural Service (FAS) were aware of general control weaknesses in 2010 before first receiving the funding, and hired a consulting firm to review FAS processes for managing Section 632(a) funds from USAID. Although the firm identified several deficiencies in its report issued in October 2010, FAS did not adequately implement corrective actions to strengthen its control environment before accepting the funds from USAID. Specifically, we found that FAS had not implemented performance monitoring plans for all projects until over two years after the first project began, which meant that FAS did not have adequate methods to monitor recipient accomplishment of program goals and objectives. Also, FAS did not finalize or implement a grant management structure that would facilitate effective monitoring of recipients' fund use.

This occurred because FAS managers and senior officials did not clearly understand who was responsible for correcting control deficiencies and implementing recommendations. Additionally, FAS did not identify or adopt procedures from its other program areas to assist in the monitoring and oversight. Without adequate management controls in place, FAS cannot effectively monitor Section 632(a)-funded projects in Afghanistan, and faces difficulty in providing adequate assurance that the funds are effectively accomplishing program goals. We did not identify any instances where transferred funds were not used in accordance with the Memorandum of Agreement (MOA) or the cooperative agreement. While FAS agreed with all recommendations, we accepted management decision on one of the two recommendations.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: February 6, 2014

AUDIT NUMBER: 50601-0002-16

TO: Phil Karsting
Administrator
Foreign Agricultural Service

ATTN: Kim Cash
Director
Compliance, Security, and Emergency Planning Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan

This report presents the results of the subject audit. Your written response to the official draft report, dated January 24, 2014, is included in its entirety at the end of this report, and the Office of Inspector General's position is incorporated into the relevant sections of the report.

Based on your written response, we accept management decision on Recommendation 2. We are unable to accept management decision on Recommendation 1. The documentation or action needed to reach management decision for this recommendation is described under the relevant OIG Position section.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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# Background and Objectives

## Background

FAS is the lead agency for USDA's international activities and efforts to help developing countries improve their agricultural systems and build trade capacity. FAS' mission is to link U.S. agriculture to the world to enhance export opportunities and global food security. In addition to its headquarters in Washington, D.C., FAS has a global network of 96 international offices, covering 169 countries.

Agriculture is the main source of income for the Afghanistan economy. Despite the fact that only 12 percent of Afghanistan's total land area is arable and less than 6 percent is currently cultivated, more than 80 percent of Afghanistan's population is involved in farming, herding, or both. USDA is helping Afghanistan revitalize its agricultural sector through a variety of activities intended to strengthen the capacity of the Afghan Government, rebuild agricultural markets, and improve management of natural resources.

As part of the U.S. Government's Agricultural Assistance Strategy for Afghanistan (the Strategy), USDA partnered with the Afghanistan Ministry of Agriculture, Irrigation, and Livestock (MAIL) and other core agricultural institutions to increase agricultural productivity, improve MAIL's capacity to provide agricultural services, and help improve rural livelihoods. With FAS as the lead agency, other USDA agencies are involved with implementing capacity building activities in Afghanistan, including the National Institute of Food and Agriculture and the Agricultural Research Service. USDA assistance efforts are a part of the overall development effort led by the U.S. Agency for International Development (USAID).

In June 2010, under the authority of the Foreign Assistance Act of 1961, USAID transferred \$86.3 million[1] to USDA for capacity-building activities in Afghanistan that included developing and implementing a system to deliver effective extension services to rural clientele, an agricultural data collection and utilization system, and core curriculum for Afghanistan pre-deployment training workshops. In support of these efforts, USDA awarded 11 projects to different organizations. USDA awarded the largest project in November 2010 to the non-government organization (NGO) Volunteers for Economic Growth Alliance (VEGA), providing \$36 million for a capacity building and change management program in Afghanistan.[2] Under Section 632(a), the Office of Inspector General (OIG) must perform periodic program and financial audits of the use of transferred funds. When we began our audit work, we undertook two assignments: one to look at FAS' general controls over the projects and another to examine VEGA specifically, due to the large size of its award.

[1] Since the original plan was signed in December 2010, some of the program components have proceeded as originally conceptualized, while others were either changed or cancelled due to unforeseen circumstances on the ground in Afghanistan. Consequently, FAS returned \$16,904,690 to USAID in August 2011.
[2] VEGA is an NGO that works to mobilize volunteers to support economic growth in developing countries, as well as design and implement successful technical assistance projects.

We did not audit VEGA's financial statement because the Special Inspector General for Afghanistan Reconstruction (SIGAR) was performing an in-depth audit of VEGA operations in Afghanistan. Accordingly, we decided not to duplicate that work and instead relied on the SIGAR audit for the financial analysis of VEGA. We did continue to audit the programmatic elements of VEGA's agreement with FAS.

In FY 2013, SIGAR initiated a series of financial audits of costs incurred under U.S.-funded contracts and grants for reconstruction projects and activities in Afghanistan. Due to the funding level of FAS' VEGA cooperative agreement, SIGAR included VEGA in its financial reviews. In December 2012, SIGAR contracted with Mayer Hoffman McCann P.C. (MHM) to perform a financial audit of costs incurred under the cooperative agreement between VEGA and USDA for the period November 2010 to December 2012. In its July 2013 audit report, MHM identified the following issues, and FAS Compliance officials agreed to conduct a review at VEGA to assess these issues:

- VEGA's accounting records had not been closed for the financial transactions incurred from November 1, 2012, through December 31, 2012, and financial records were not readily available for testing, resulting in a scope limitation. The total cost incurred during this period was $2,647,577.
- MHM issued a qualified opinion on the fairness of the presentation of the fund accountability statement, based on the identification of $720,501 of questioned costs, which represented a material misstatement of the fund accountability statement. MHM identified no costs that were deemed to be ineligible.
- Five significant internal control deficiencies were reported. For example, VEGA reported hours worked were based on estimates rather than actual hours worked.
- Two compliance findings were reported. For example, several trips to Afghanistan were made by program and financial personnel from VEGA and International Executive Service Corps (IESC); however, these trips were not supported by monitoring or status reports that described the purpose of the trip and the benefit to the cooperative agreement.
- There were two prior engagements that identified a total of five findings.[3] VEGA did not implement adequate corrective action for two of the five prior findings.

Because of the significant increase in USAID funding and FAS' concern about the agency's ability to manage its increased responsibilities, FAS contracted with Acuity, a consulting firm, in 2010. Acuity conducted a comprehensive review of all FAS' Section 632(a) and (b) funding agreements from early 2003 to August 2010.[4] Acuity determined the processes FAS used for

[3] There were two prior engagements with findings and recommendations that were included in the scope of MHM's audit. In VEGA's Single Audit report for 2009, there was one finding for which adequate corrective action had been implemented and the finding was considered resolved. In USAID's Pre-Award Survey, there were four observations identified. Of the four observations, two had corrective actions which have been adequately implemented and two remain outstanding and were included as findings in MHM's audit report.

[4] The Foreign Assistance Act of 1961, Section 632, "Allocation and Reimbursement among Agencies," identifies methods by which USAID may provide funding to other government agencies. If funds are transferred under Section 632(a), "Allocations and Transfers," an MOA is executed and the agency receiving the funds is wholly accountable for their use. Under Section 632(b), "Reimbursable Agreements," an Interagency Agreement is executed and USAID is wholly accountable for the usage of the funds. The agency receiving Section 632(b) funds is required to provide detailed receipts and reports to USAID in order to receive reimbursement.

managing these funds and how they might be improved. Acuity found that FAS should consider re-engineering the Section 632 funding process, developing comprehensive standard operating procedures.[5]

OIG previously reviewed Section 632(a) funds in a September 2012 report, *Section 632(a) Transfer of Funds from USAID to USDA for Pakistan*. We reported that USDA was taking steps to establish controls to monitor and provide oversight of capacity building projects in Pakistan, but had not yet implemented a monitoring and evaluation process. As FAS was then working to develop and implement this process, we were unable to fully assess the adequacy of monitoring and oversight controls during our 2012 review. Accordingly, we did not make any recommendations at that time, but agreed that we would continue to monitor FAS' implementation of this process during our review of Section 632(a) activities in Afghanistan. Therefore, this report includes recommendations that apply to projects we reviewed in our prior audit as well.

## Objectives

The overall objective of this audit was to evaluate the adequacy of management controls established by FAS to monitor and provide oversight over Section 632(a) transfer of funds for activities in Afghanistan. Specifically, we evaluated whether transferred funds were used in accordance with the Memorandum of Agreement (MOA) between USAID and USDA, dated June 15, 2010.

We also evaluated the adequacy of FAS' management controls to ensure that Section 632(a) funds used by VEGA for the capacity building and change management program in Afghanistan were being used in accordance with the cooperative agreement between VEGA and FAS.[6] We did not identify any instances where transferred funds were not used in accordance with the MOA or the cooperative agreement. As such, our report contains no findings and recommendations associated with this portion of our objective.

In June 2012, OIG initiated two audits to evaluate FAS' controls over Section 632(a) transfer of funds from USAID for capacity building efforts in Afghanistan: *Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan* (50601-0002-16), and the *Review of Volunteers for Economic Growth Alliance Activities in Afghanistan* (07099-0001-16). For 50601-0002-16, we reviewed the overall transfer of funds through a judgmental sample of projects implemented under the MOA between USAID and USDA.[7] For 07099-0001-16, we specifically reviewed the cooperative agreement between VEGA and FAS and other governing documents. Because we found similar internal control issues during both audits, we combined the audit work to issue this single report detailing the results of both audits.

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[5] "Operational Improvement Program Support 632(a) and 632(b) Look Back Report," October 5, 2010.
[6] On November 24, 2010, FAS entered into a cooperative agreement with VEGA to implement the Capacity Building and Change Management Program for the Afghanistan Ministry of Agriculture, Irrigation, and Livestock.
[7] On June 15, 2010, USDA and USAID signed a MOA transferring $86.3 million in USAID appropriated funds to USDA under the authority of Section 632(a) of the Foreign Assistance Act of 1961, as amended.

## Section 1: FAS Management Controls

### Finding 1: FAS Needs to Establish a Comprehensive Management Control Environment for Section 632(a) Funds

Although senior managers were aware of general control weaknesses in 2010, and a consulting firm contracted by FAS identified several deficiencies, FAS did not sufficiently strengthen its control environment before accepting Section 632(a) funds from USAID. Specifically, we found that FAS had not implemented performance monitoring plans for all projects until over two years after the first project began, which meant that FAS did not have adequate methods to monitor recipient accomplishment of program goals and objectives.[8] Also, FAS did not finalize or implement a grant management structure that would facilitate effective monitoring of recipients' fund use. This occurred because FAS managers and senior officials did not clearly understand who was responsible for correcting control deficiencies and implementing recommendations. Additionally, FAS did not identify or adopt procedures from its other program areas to assist in the monitoring and oversight of the Section 632(a) agreements. FAS program officials repeatedly stated that high level officials who are no longer associated with this FAS program made the decision to accept Section 632(a) funds without a more extensive control structure in place. Senior officials also acknowledged that they were not prepared to manage these funds when FAS started receiving transfers in 2010. Without adequate management controls in place, FAS cannot effectively monitor approximately $108.4 million in Section 632(a)-funded projects in Afghanistan and Pakistan,[9] and faces difficulty in providing adequate assurance that funds are effectively accomplishing program goals.

According to OMB Circular A-123, managers should develop and maintain control activities to ensure that the agency's objectives are met.[10] Additionally, the Government Accountability Office (GAO) Standards for Internal Control state that managers should establish and review performance measures as part of their ongoing monitoring during normal operations. This includes regular management and supervisory activities, comparisons, and reconciliations. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.[11]

#### Performance Monitoring and Evaluation

When OIG first began auditing Section 632(a) funds in 2011, [12] we focused on funds for projects in Pakistan. During that audit, when we questioned FAS program officials about

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[8] Audit 50601-0001-16, "Section 632(a) Transfer of Funds for Pakistan from USAID to USDA," issued September 27, 2012.
[9] USDA received $20 million in April 2010, $86.3 million in June 2010, and $19 million in March 2011 in Section 632(a) funding. Due to unforeseen circumstances on the ground in Afghanistan, some projects were changed or cancelled. Consequently, of the $86.3 million, FAS returned $16,904,690 to USAID in August 2011.
[10] OMB Circular A-123, *Management's Responsibility for Internal Control,* December 2004.
[11] GAO, *Standards for Internal Control in the Federal Government*, November 1999.
[12] Audit 50601-0001-16, "Section 632(a) Transfer of Funds for Pakistan from USAID to USDA," issued September 27, 2012. For the Pakistan review, we selected the Foot and Mouth Disease (FMD), Cotton Productivity Enhancement Program (CPEP) and the Wheat Productivity Enhancement Program (WPEP) projects for our review.

the processes in place to monitor and track project progress, they explained that performance monitoring and evaluation plans (hereafter referred to as "performance plans") would be developed with assistance from a consulting firm, Social Impact.[13] Social Impact was tasked with creating an overall framework for monitoring and reporting on work in the Fragile Markets, and country-level frameworks for Pakistan and Afghanistan, [14] as well as developing individual project performance plans for selected projects in Afghanistan and Pakistan.

In October 2011, during our Pakistan review, Social Impact was directed to stop any and all work under the task order due to a protest of the Indefinite Delivery Indefinite Quantity (IDIQ) contract. Social Impact resumed work under the task order in June 2012. Since the contract work was placed on hold, we were unable to fully assess the overall adequacy of project monitoring and oversight controls during that review. Accordingly, we did not make any recommendations at that time, but agreed that we would continue to monitor FAS' implementation. After the contract delay, FAS directed Social Impact to finalize the individual project performance plans before completing the overall framework, given that many of the projects were scheduled to end within a year. All performance plans are now complete.

We noted that performance plans for some of the projects we reviewed had only recently been developed and agreed to (see Exhibit A). However, FAS awarded the projects and allocated funds beginning in fiscal year (FY) 2011.[15] Therefore, none of the projects started out having performance plans, and most had delays of over a year before putting a plan in place. For example, the performance plan for the agricultural data collection and utilization system was finally agreed to and ready for implementation in January 2013. That meant that the recipient had only 9 months to implement the performance plan before the project's estimated completion in September 2013, although the project had already been running for 15 months. The project was subsequently granted a no-cost extension until September 2014.

FAS officials explained that they conducted informal monitoring by reviewing quarterly performance reports submitted by recipients, doing site visits, and convening monthly, weekly, or biweekly conference calls. However, these are activities normally done through any grant monitoring process. Further, the quarterly performance reports are narrative in nature and do not contain sufficient quantifiable measures that relate directly to project objectives. Indeed, in some cases, the projects did not have quantifiable objectives in their original work plans.

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[13] In September 2011, FAS awarded a monitoring and evaluation task order under an Indefinite Delivery Indefinite Quantity (IDIQ) contract to Social Impact in the amount of $923,555 to assist in improving program planning, measuring, monitoring and reporting. Specifically, the consulting firm would (1) develop a results-oriented management framework; (2) develop and/or review performance monitoring plans; (3) develop evaluation plans for individual projects; and (4) build capacity of FAS on performance management and evaluation.

[14] As of June 2013, the Pakistan and Afghanistan country-level frameworks and the overall Fragile Markets Results framework are still in draft form.

[15] For the Afghanistan review, we selected the Capacity Building and Change Management Program (CBCMP), Agricultural Development for Afghanistan Pre-deployment Training (ADAPT), Agricultural Data Collection and Utilization System (ADCUS) and Afghanistan Agricultural Extension Project (AAEP) projects for our review.

For example, one project had an initial work plan that stated a specific objective of recruiting and training qualified local employees for a government accounting department, but said that the exact number of employees was "to be determined." The work plan also stated that the employees were expected to be trained, tested and certified using particular software and making expenditures. In the project's early quarterly performance report, the organization stated that 19 accounting employees had been sent to training, and a training evaluation would be done on their return. A later report stated that 29 civil servants had been trained in government accounting, but did not provide information on the training evaluations from the previous report, nor did it speak to the software, testing, certification, or other activities described in the work plan. The quarterly reports also did not specify what the "to be determined" number of employees was, and whether 29 was sufficient. OIG noted that when this organization put its formal performance plan in place, these issues were adequately addressed and reported on. Therefore, OIG believes that continued use of the performance plans, along with clear and measurable objectives, is critical to strong FAS oversight.

**Grant Management Structure**

When FAS accepted Section 632(a) funds for Afghanistan and Pakistan capacity building activities, it did not have a grant management structure in place to ensure that the recipients complied with the terms and conditions of their award, and that program goals and objectives were being met. Due to the significant increase in funds intended for Afghanistan and Pakistan, FAS did hire a grant management officer in November 2010.

While FAS has since taken steps to implement a grant management structure, it has not yet finalized or implemented several measures designed to enhance oversight. In fact, as of July 2013, none of the Afghanistan project agreements that we reviewed have been subject to the new systems and requirements.

Specifically, FAS has developed, but has not yet finalized, (1) agency regulations and directives that would create uniform guidelines for administering Federal financial assistance, and (2) an electronic grant management system to manage its non-food aid grants and agreements. FAS has three proposed final rules that are still under review by the Office of the General Counsel, which would provide FAS with more specific authority to carry out international research extension and teaching activities. The projects we reviewed were issued under the authority of a general non-profit grant regulation that did not always fit their particular circumstances. FAS also has several agency directives in draft form that would provide uniform instruction to employees on how to use the new grant management system.

The grant management system is being implemented in three developmental phases. The first release only became operational in July 2013, and all new grant agreements will be entered into the system. Current grant agreements will be migrated from the old system to the new grant management system, and FAS expects the grant management system will be fully operational in July or August of 2014. Thus, by the time the grant management system is fully operational, all of the Afghanistan project agreements we selected for review will have reached or nearly reached their agreed upon end date. OIG acknowledges that FAS has made progress in this area, but we question whether the agency should have awarded these grants and agreements before it had fully implemented its grant management structure.

FAS management was aware of many of the issues listed above after receiving the results of an external review, completed in 2010. In July 2010, FAS paid $168,000 for an external review by Acuity, a consulting group, because there had been a significant increase in Section 632(a) funding. FAS leadership stated that they were concerned about the agency's ability to manage the increased responsibilities associated with this type of funding. Acuity was tasked to determine the processes FAS used for managing these funds and how FAS could improve the processes. In its October 2010 report, Acuity reported the following issues, which overlaps and corroborates the issues identified earlier:

- FAS did not have a single, comprehensive standard operating procedure (SOP) that governed the entire life cycle of the agreements. Other SOPs were not documented, and better training on how to carry out the SOPs was needed.
- Inside FAS, there was a perceived lack of communication and cooperation, poorly defined position descriptions and roles, and insufficient technology capabilities across the board.
- The Office of Capacity Building and Development (OCBD) and the Fragile Market Economies Team handle their agreements in a slightly different manner, and neither can be certain that they are executing the process properly.
- FAS tracked funds inconsistently.

Acuity recommended the following actions to FAS:

- Develop a comprehensive SOP capable of managing all types of agreements falling under FAS' responsibility.
- Train the staff involved in implementing the new SOPs.
- Ensure that SOPs stipulate that Section 632(a) agreements are to be handled in the same manner as Section 632(b) agreements, and establish a division within FAS that would act as USAID does for Section 632(b) agreements.[16, 17] This new division would require the same documentation and reporting as USAID prior to disbursing funds.

If FAS had timely moved to address the Acuity report's recommendations, we believe it could have strengthened the program overall. Although some FAS program officials stated that they were aware of this report, they were not clear as to whom the report was addressed, and who in FAS senior management was responsible for tracking the recommendations to ensure that corrective actions were implemented. Program officials speculated that the report was addressed to FAS' senior management officials who were present when the report was issued.

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[16] "Operational Improvement Program Support 632(a) and 632(b) Look Back Report," October 5, 2010.
[17] The study included a total of six recommendations; however, not all were relevant to the objective and scope of our audit work.

Accordingly, we asked former and current FAS senior officials what steps had been taken to implement corrective action. The former Administrator believed he had delegated corrective action to the responsible Associate Administrator, but he did not follow up with that official before leaving the agency in April 2011. The former Chief of Staff reported that she left the agency in September 2010, before the report was issued, and stated that, therefore, she was not aware of the recommendations. An Associate Administrator reported that she was never delegated responsibility to implement the recommendations, but stated that FAS was undergoing reorganizations and personnel changes at the time the report was issued, and that could partly explain why the recommendations were never addressed. The current Chief Operating Officer and the Deputy Administrator for OCBD were aware of the report, but did not know who was responsible for implementing its recommendations. One official stated that, although the agency has taken significant steps to address the fiscal or financial aspects of grants management, he was not aware why the programmatic aspects of the recommendations were not adequately addressed. We believe that this situation illustrates the problems described in Acuity's report—FAS' lack of communication and cooperation, as well as poorly defined roles—problems which remain uncorrected.

Grant oversight came to the fore in a SIGAR FY 2013 audit report that questioned $720,501 in costs for a $36 million award to VEGA. SIGAR's contracted financial audit found internal control weaknesses at VEGA, such as hours worked were based on estimates rather than actual hours. Due to the questioned costs and a scope limitation, SIGAR's contractor issued a qualified opinion on the fairness of the grantee's fund accountability statement.

OIG concluded that FAS, when accepting the Section 632(a) funds, was unprepared to properly administer and monitor the influx of $86.3 million in funds. We believe that without comprehensive management processes in place, FAS cannot effectively monitor and measure the progress of its Section 632(a)-funded projects, and faces difficulty in providing adequate assurance that the funds are effectively accomplishing program goals. Therefore, we maintain that FAS should not accept additional Section 632(a) funds until it has established an adequate management control structure and implemented the applicable recommendations from the Acuity report.

## Recommendation 1

Forego accepting further Section 632(a) funds until the agency has fully implemented a formal monitoring and evaluation process and a grants management structure, including finalizing agency regulations and directives.

## Agency Response

In its January 24, 2014, response, FAS agreed with this recommendation and stated that a formal monitoring and evaluation process and a grants management structure are required to manage 632(a) agreements properly. FAS recognized the processes in place were not optimal to manage the $86.3 million Afghanistan 632(a) agreement signed in 2010. However, FAS has a history of successfully managing a number of smaller 632(a) agreements, and has demonstrated a capacity to formally monitor and evaluate such agreements. FAS will not accept 632 (a) agreements that go beyond its ability to effectively monitor and evaluate. FAS will enter into 632(a) agreements only when: (a) the work can be implemented within the time frame allowed for obligating the funds, (b) a work plan is developed consistent with standardized monitoring and evaluation processes, and (c) responsibility for implementation and evaluation is located within a unit that has a track record of managing reimbursable agreements.

## OIG Position

We are unable to reach management decision for this recommendation. To reach management decision, FAS needs to provide an estimated completion date that the agency will fully implement a formal monitoring and evaluation process and a grants management structure, including finalizing agency regulations and directives.

## Recommendation 2

Implement the recommendations for the processing of Section 632 funds and agreements outlined in Acuity's review.

## Agency Response

In its January 24, 2014, response, FAS agreed with this recommendation and stated that it will document implementation of all recommendations in the Acuity review by March 31, 2014.

## OIG Position

We accept management decision for this recommendation.

## Scope and Methodology

To satisfy our audit requirement, as mandated under Section 632(a), OIG initiated two audits to evaluate FAS' management controls over Section 632(a) activities in Afghanistan: *Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan* (50601-0002-16), and the *Review of Volunteers for Economic Growth Alliance Activities in Afghanistan* (07099-0001-16).[18] Because we found similar internal control issues in both audits, we combined the audit work to issue one report. For both assignments, we conducted fieldwork in Washington, D.C., at the national offices of FAS and NIFA, and the VEGA headquarters office. We performed our audit fieldwork between June 2012 and June 2013.

For 50601-0002-16, we identified and evaluated USDA controls over funds transferred from USAID to USDA for capacity building activities in Afghanistan. Our review focused on FY 2010 funds provided for capacity building activities in Afghanistan under Section 632(a). To assess whether FAS had sufficient controls over the projects, we selected 3 of the 11 priority projects that received the highest funding (for a combined total of $21.5 million) under the spend plan for $86.3 million for Section 632(a) activities in Afghanistan.[19]

For 07099-0001-16, we evaluated the adequacy of FAS' management controls to ensure that Section 632(a) funds provided to VEGA for management and implementation of CBCMP were being used in accordance with the cooperative agreement (totaling $36 million) between t and FAS. Our review focused on the FY 2011 transfer of Section 632(a) funds from FAS to VEGA. Initially, we conducted a separate audit of CBCMP because the recipient, VEGA, was an NGO that received the highest level of funding awarded by FAS.

| **Sampled Projects** | **USDA Agency** | **Implementing Partner** | **FY 2010 Funding Allocation** |
|---|---|---|---|
| CBCMP | FAS | VEGA | $36,000,000 |
| AAEP | NIFA | University of California – Davis | $15,591,113 |
| ADCUS | FAS | Purdue University | $3,099,861 |
| ADAPT | FAS | California State University - Fresno | $2,853,900 |
| Total | | | $57,544,874 |

[18] Foreign Assistance Act of 1961, (P.L. 87-194), Section 509(d), July 2003, as amended.

[19] Since the original spend plan was signed in December 2010, some of the program components have proceeded as originally conceptualized, while others were either changed or cancelled due to unforeseen circumstances on the ground in Afghanistan. Consequently, FAS returned $16,904,690 to USAID in August 2011.

To accomplish our audit objectives:

- We interviewed FAS program officials from the Fragile Market Economies Division and staff stationed in Afghanistan to obtain an understanding of their oversight responsibilities, management controls over capacity building activities, and coordination efforts with other USDA agencies, implementing partners, and MAIL. We interviewed FAS program officials within the Budget and Financial Management Division to identify their role in the funds transfer process, and in the accounting, monitoring, and reporting of obligations and expenditures. We also interviewed FAS officials from OCBD's Monitoring and Evaluation staff to determine whether controls are in place to measure whether projects are meeting their stated goals and objectives.

- We interviewed NIFA officials from the Center for International Programs and university officials from the University of California at Davis, Washington State University, Purdue University, and California State University at Fresno to gain an understanding of their individual project oversight responsibilities, management controls over projects, coordination efforts with FAS and implementing partners, and performance monitoring and evaluation plans.

- We interviewed FAS' former Administrator, former Chief of Staff, Associate Administrator, Chief Operating Officer, and Deputy Administrator for OCBD to determine what actions had been taken to implement recommendations offered in the external review conducted by Acuity.

- We interviewed officials from VEGA, including the President, Chief Financial Officer, Director of Finance, the Business Development & Program Manager, and Program Manager at IESC (a sub-grantee) to determine their roles and responsibilities and evaluate their processes for administering and monitoring CBCMP.

- We reviewed the Memorandum of Agreement, interagency and cooperative agreements, work plans, project files, trip reports, quarterly performance reports, quarterly and annual financial reports, requests for advance/reimbursement, fund transfer documents, status of funds reports, performance monitoring and evaluation plans, and other documentation related to capacity building efforts in Afghanistan to evaluate the adequacy of the management controls established by FAS to monitor and provide oversight over Section 632(a) funds. We also attended Afghanistan country team meetings.

- For each sampled project under Audit 50601-0002-16, we reviewed the status of funds reports and a detailed transaction listing for costs incurred and recorded to determine whether funds were being used in accordance with the project agreement and could be reconciled to supporting documentation. We did not use or rely on any computer database information system to support the finding presented in this report. For Audit 07099-0001-16, we did not perform a financial review of costs incurred under the cooperative agreement between VEGA and USDA because we relied on the results of SIGAR's financial review performed by MHM.

- Through interviews with program officials and record reviews, we evaluated management controls related to monitoring and oversight, tracking and reporting project progress, internal project performance reviews, and coordination efforts with other USDA agencies, implementing partners, and MAIL.

- We assessed FAS' efforts to implement a performance monitoring and evaluation plan through interviews with FAS officials from OCBD's Monitoring and Evaluation staff, and reviews of contract award documents, work plans, monthly progress reports, and training modules.

- We reviewed applicable legislative history, laws, Government Accountability Office reports, the agencies' internal reviews including Federal Managers' Financial Integrity Act reports, and external reviews including Acuity's "Operational Improvement Program Support 632(a) & 632(b) Look Back Report."

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

## Abbreviations

| | |
|---|---|
| AAEP | Afghanistan Agricultural Extension Project |
| ADAPT | Agricultural Development for Afghanistan Pre-deployment Training |
| ADCUS | Agricultural Data Collection and Utilization System |
| ARS | Agricultural Research Service |
| CBCMP | Capacity Building and Change Management Program |
| CPEP | Cotton Productivity Enhancement Program |
| FAS | Foreign Agricultural Service |
| FAO | Food and Agriculture Organization |
| FMD | Foot and Mouth Disease |
| GAO | Government Accountability Office |
| IDIQ | Indefinite Delivery Indefinite Quantity |
| IESC | International Executive Service Corps |
| MAIL | Ministry of Agriculture, Irrigation, and Livestock |
| MHM | Mayer Hoffman McCann P.C. |
| MOA | Memorandum of Agreement |
| NGO | Non-governmental organization |
| NIFA | National Institute of Food and Agriculture |
| OCBD | Office of Capacity Building and Development |
| OIG | Office of Inspector General |
| PMEP | Performance Monitoring and Evaluation Plan |
| SIGAR | Special Inspector General for Afghanistan Reconstruction |
| USAID | U.S. Agency for International Development |

| | |
|---|---|
| USDA | Department of Agriculture |
| VEGA | Volunteers for Economic Growth Alliance |
| WPEP | Wheat Productivity Enhancement Program |

# Exhibit A: Performance Monitoring and Evaluation Plans for Section 632(a) Projects

Exhibit A shows the project agreement start and end dates and the date the performance monitoring and evaluation plan (PMEP) was approved by FAS for each Section 632(a) project we selected as part of our review of Pakistan and Afghanistan capacity building activities.[20] For the Pakistan review, we selected the Foot and Mouth Disease (FMD), Cotton Productivity Enhancement Program (CPEP) and the Wheat Productivity Enhancement Program (WPEP) projects for our review. For the Afghanistan review, we selected the Capacity Building and Change Management Program (CBCMP), Agricultural Development for Afghanistan Pre-deployment Training (ADAPT), Agricultural Data Collection and Utilization System (ADCUS) and Afghanistan Agricultural Extension Project (AAEP) projects for our review.

| Sampled Project | Country | Implementing Partner | Funding Amount | Agreement Start Date | Agreement End Date | PMEP |
|---|---|---|---|---|---|---|
| FMD | Pakistan | Food and Agriculture Organization | $7,140,500 | September 2010 | September 2015 | Not included in monitoring and evaluation contract[21] |
| CPEP | Pakistan | ARS | $9,000,000 | June 2011 | March 2015 | April 2013 |
| WPEP | Pakistan | ARS | $9,000,000 | June 2011 | September 2016 | Not included in monitoring and evaluation contract[22] |
| CBCMP | Afghanistan | VEGA | $36,000,000 | November 2010 | June 2014 | June 2012 |
| AAEP | Afghanistan | NIFA | $15, 576,817 | May 2011 | September 2014 | February 2013 |
| ADAPT | Afghanistan | California State University | $2,853,900 | August 2011 | February 2014 | Not included in monitoring and evaluation contract[23] |
| ADCUS | Afghanistan | Purdue University | $3,099,861 | September 2011 | September 2014 | January 2013 |

[20] The Pakistan projects included in the exhibit are projects we selected as part of our prior review of *Section 632(a) Transfer of Funds for USAID to USDA for Pakistan*, issued September 27, 2012 (50601-0001-16).

[21] The FMD project was not included in the monitoring and evaluation contract because the Food and Agriculture Organization is using its own performance monitoring plan. FAS officials track performance through the quarterly progress reports, which include performance measures and progress made toward achieving project outcomes.

[22] The WPEP project was not included in the monitoring and evaluation contract because the project has its own monitoring plan which includes objectives and performance indicators developed by ARS. FAS officials track project performance through the quarterly and annual progress reports, which include performance indicators and benchmarks that are tied directly to each project objective.

[23] The ADAPT project was initially included in the monitoring and evaluation contract. However, in January 2013, because the contract was delayed for so long, FAS officials determined that having Social Impact develop a PMP this late in the implementation stage would be a waste of resources. The ADAPT project will continue to track project performance through an existing monitoring and evaluation system established by an independent group at California State University.

# USDA'S
# FOREIGN AGRICULTURAL SERVICE
# RESPONSE TO AUDIT REPORT

**United States Department of Agriculture**

Farm and Foreign Agricultural Services

Foreign Agricultural Service

1400 Independence Ave, SW
Stop 1001
Washington, DC 20250-1001

Linking U.S. Agriculture to the World

DATE: January 24, 2014

TO: Gil Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Phil Karsting /s/
Administrator

SUBJECT: Response to OIG Draft Report -- "Section 632(a) Transfer of Funds from U.S. Agency for International Development to the U.S. Department of Agriculture for Afghanistan" (50601-0002-16)

Thank you for providing the Foreign Agricultural Service (FAS) with the Office of Inspector General (OIG) draft report on "Section 632(a) Transfer of Funds from U.S. Agency for International Development to the U.S. Department of Agriculture for Afghanistan." FAS is pleased that OIG did not find any instances where FAS funds for Afghanistan were not used in accordance with their intended purpose. FAS exercised strong oversight of projects under the 632(a) agreement through the dedicated efforts of FAS staff in Washington and Kabul, recognizing that these projects were developed and implemented in a war zone as a part of an urgent whole-of-government effort. The FAS projects reviewed by OIG have been successful in significantly improving the capacity of the Ministry of Agriculture, Irrigation and Livestock to carry out its mission and in supporting the overall U.S. goals in Afghanistan.

The two OIG recommendations, and FAS's responses to them, are provided as follows:

**<u>Recommendation 1:</u>**

Forego accepting further Section 632(a) funds until the agency has fully implemented a formal monitoring and evaluation process and a grants management structure, including finalizing agency regulations and directives.

**FAS Response:**

The Agency concurs with the recommendation that a formal monitoring and evaluation process and a grants management structure are required to manage 632(a) agreements properly. The Agency recognizes the processes in place were not optimal to manage the $86.3 million Afghanistan 632(a) agreement signed in 2010. However, FAS has a history of successfully managing a number of smaller 632(a) agreements, and has demonstrated a capacity to formally monitor and evaluate such agreements. FAS will not accept 632(a) agreements that go beyond the Agency's ability to effectively monitor and evaluate. FAS will enter into 632(a) agreements only when: a) the work can be implemented within the time frame allowed for obligating the funds, b) a work plan is developed consistent with standardized monitoring and evaluation processes, and c) responsibility for implementation and evaluation is located within a unit that has a track record of managing reimbursable agreements.

**Recommendation 2:**

Implement the recommendations for the processing of Section 632 funds and agreements outlined in Acuity's review.

**FAS Response:**

The Agency agrees and will document implementation of all recommendations in the Acuity review by March 31, 2014.

If you have any questions or concerns regarding this memorandum, or if you need additional information, please contact James Gartner, FAS's Audit Liaison, on (202) 720-0517.

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