**Why GAO Did This Study**

The U.S. Agency for International Development (USAID) and the Department of Defense (DOD) award direct assistance to Afghanistan, using bilateral agreements and multilateral trust funds that provide funds through the Afghan national budget. GAO assessed (1) the extent to which the United States, through USAID and DOD, has increased direct assistance, (2) USAID and DOD steps to ensure accountability for bilateral direct assistance, and (3) USAID and DOD steps to ensure accountability for direct assistance via multilateral trust funds for Afghanistan. GAO reviewed USAID, DOD, and multilateral documents and met with U.S. officials and staffs of multilateral trust funds in Washington, D.C., and Afghanistan.

**What GAO Recommends**

GAO recommends that USAID (1) establish and implement policy requiring risk assessments in all cases before awarding bilateral direct assistance funds, (2) take additional steps to help ensure it implements controls for bilateral direct assistance, and (3) ensure adherence to its risk assessment policies for ARTF. In commenting on the first recommendation, USAID stated that its existing policies call for some form of risk assessment for all awards and that it has taken new steps to ensure risk assessment. GAO retained its recommendation because existing USAID policies do not require preaward risk assessments in all cases. USAID concurred with GAO’s other recommendations.

**What GAO Found**

The United States more than tripled its awards of direct assistance to Afghanistan in fiscal year 2010 compared with fiscal year 2009. USAID awards of direct assistance grew from over $470 million in fiscal year 2009 to over $1.4 billion in fiscal year 2010. USAID awarded $1.3 billion to the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) in fiscal year 2010, of which the bank has received $265 million as of July 2011. DOD direct assistance to two ministries grew from about $195 million in fiscal year 2009 to about $576 million in fiscal year 2010, including contributions to fund police salaries through the United Nations Development Program-administered (UNDP) Law and Order Trust Fund for Afghanistan (LOTFA).

USAID and DOD have taken steps to help ensure the accountability of their bilateral direct assistance to Afghan ministries, but USAID has not required risk assessments in all cases before awarding these funds. For example, USAID did not complete preaward risk assessments in two of the eight cases GAO identified. Although current USAID policy does not require preaward risk assessments in all cases, these two awards were made after the USAID Administrator’s July 2010 commitment to Congress that USAID would not proceed with direct assistance to an Afghan public institution before assessing its capabilities. In these two cases, USAID awarded $46 million to institutions whose financial management capacity were later assessed as “high risk.” USAID has established various financial and other controls in its bilateral direct assistance agreements, such as requiring separate bank accounts and audits of the funds. USAID has generally complied with these controls, but GAO identified instances in which it did not. For example, in only 3 of 19 cases did USAID document that it had approved one ministry’s prefinancing contract documents. DOD personnel in Afghanistan assess the risk of providing funds to two security ministries through quarterly reviews of each ministry’s capacity. DOD officials also review records of ministry expenditures to assess whether ministries have used funds as intended. DOD established formal risk assessment procedures in June 2011, following GAO discussions with DOD about initial findings.

USAID and DOD generally rely on the World Bank and UNDP to ensure accountability over U.S. direct assistance provided multilaterally through ARTF and LOTFA, but USAID has not consistently complied with its risk assessment policies in awarding funds to ARTF. For example, in March 2010, USAID did not conduct a risk assessment before awarding an additional $1.3 billion to ARTF. During GAO’s review, DOD established procedures in June 2011 requiring that it assess risks before contributing funds to LOTFA. The World Bank and UNDP use ARTF and LOTFA monitoring agents to help ensure that ministries use contributions as intended. However, security conditions and weaknesses in Afghan ministries pose challenges to their oversight. For example, the ARTF monitoring agent recently resigned due to security concerns. The World Bank is now seeking a new monitoring agent and does not anticipate a gap in monitoring. In addition, weaknesses in the Ministry of Interior’s systems for paying wages to police challenge UNDP efforts to ensure that the ministry is using LOTFA funds as intended.

View GAO-11-710 or key components. For more information, contact Charles M. Johnson Jr. at (202) 512-7331 or johnsoncm@gao.gov.