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USAID
FROM THE AMERICAN PEOPLE

JAN 1 0 2017

TRANSMITTED VIA EMAIL

Re: FOIA Request No. F-00230-16
Final Response

The United States Agency for International Development (USAID) regrets the delay in responding to your Freedom of Information Act (FOIA) request. Unfortunately, USAID is experiencing a backlog of FOIA requests. Please know that USAID management is very committed to providing responses to FOIA requests and remedying the FOIA backlog.

This is the final response to your May 24, 2016 FOIA request to the USAID. You requested a copy of the following eight (8) OIG Audits: Audit of the Effectiveness of USAID/South Africa's Award Closeout and Contractor Performance Evaluation Programs; Follow-up of Recommendation No. 2, Audit of USAID/Russia's Monitoring of American International Health Alliance's Performance (Report No. B-118-03-002-P); Audit of USAID/Mali's Self-Help Program; Audit of USAID-Financed Basic Education Program in Benin; Audit of USAID-Financed Alternative Development Activities in Peru; USAID's Accrued Expenditures, Accounts Payable, and Related Internal Controls (FY 2000); Quick Response Audit of Liquidation of Expenditures under Grant No. 649-0141-G-00-4002-00 and USAID/West Bank and Gaza's Implementation of the Federal Manager's Financial Integrity Act.

For your information, Congress excluded three (3) discrete categories of law enforcement and national security records from the FOIA. See 5 U.S.C. § 552(c) (2006 & Supp. IV (2010)). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all of our requesters and should not be construed as an indication that excluded records do, or do not, exist.

USAID conducted a comprehensive search of the Office of Inspector General (OIG) for documents responsive to your request. The search produced a total of 145 pages. Of those pages, we have determined that 145 pages of the records are releasable in their entirety.

If you require any further assistance or would like to discuss any aspect of your request, you may contact Ms. Makeda Weeks-Titus, the assigned FOIA Specialist by phone on (202) 216-3248 or at mweekstitus@usaid.gov. You may also contact USAID's FOIA Public Liaison, Lynn P. Winston, at foia@usaid.gov.

Additionally, you may contact the Office of Government Information Services (OGIS) at the National Archives and Records Administration to inquire about the FOIA mediation services offered:

Office of Government Information Services
National Records and Archives Administration
8601 Adelphi Road-OGIS
College Park, Maryland 20740-6001
E-mail: ogis@nara.gov
Telephone: (202) 741-5770; toll free at 1-877-684-6448
Fax (202) 741-5769

You have the right to appeal this final response. Your appeal must be received by USAID no later than 90 days from the date of this letter. In order for it to be considered an official appeal, please address and send directly to the FOIA Appeal Officer:

Director, Office of Management Services
U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Ronald Reagan Building, Room 2.12.010
Washington, DC 20523

If you wish to fax your appeal, the fax number is (202) 216-3369. Both the appeal and envelope should be marked "**FOIA APPEAL.**" Please include your tracking number F-00230-16 in your letter.

There is no charge for this FOIA request. As this concludes the processing of your request, it will be closed.

Thank you for your interest in USAID and continued patience.

Sincerely,

Alecia Sillah, for

Lynn P. Winston, Chief
FOIA Public Liaison Officer
FOIA Officer/Agency Records Officer
Bureau for Management
Office of Management Services
Information and Records Division

Enclosures: Responsive Records (145 pages)

Report of Audit

AUDIT OF USAID'S ACCRUED EXPENDITURES, ACCOUNTS PAYABLE, AND RELATED INTERNAL CONTROLS FOR FISCAL YEAR 2000

Report No. 0-000-01-004-F
February 15, 2001

Washington, DC

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR CFO, Michael T. Smokovich

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Independent Auditor's Report on USAID's Accrued Expenditures, Accounts Payable, and Related Internal Controls for Fiscal Year 2000. Report No. 0-000-01-004-F

This memorandum audit report is our report on the U.S. Agency for International Development's (USAID) accrued expenditures, accounts payable, and related internal controls. The report is part of our audit of USAID's consolidated financial statements which is required by the Government Management and Reform Act of 1994. This report is one in a series of reports that communicate the results of our audits conducted on the selected line items reported in USAID's Fiscal Year 2000 Balance Sheet.

This report provides the results of our audit work performed to determine whether USAID properly calculated and reported its accrued expenditures and accounts payable to permit the preparation of reliable financial statements as of September 30, 2000. We were unable to determine whether USAID properly calculated and reported accrued expenditures and accounts payable to permit the preparation of reliable financial statements as of September 30, 2000. USAID changed its methodology for calculating and reporting accrued expenditures and related accounts payable and took action to improve its policies and procedures and the quality of the financial data recorded in the system. As result of the new methodology, USAID made material year-end adjustments to reverse the incorrect accrual calculations performed by the NMS and to record the accrual estimates derived from the application of the new accrual methodology. Due to time constraints, we were unable to evaluate the new methodology and determine the reliability of the balances reported.

Accordingly, the OIG is not expressing an opinion nor making any recommendations in this report. Instead, we will review USAID's new methodology and the implementation of its revised policies and procedures during our audit of USAID's fiscal year 2001 consolidated financial statements. See **Appendix II** for USAID Management's comments.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors over the past year.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

BACKGROUND

USAID was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in 70 countries; 42 of which have fully operational and formal USAID missions.

Accounts payable systems for USAID consist of transactions and procedures associated with identifying, assembling, classifying, and recording transactions to report grants, contracts, and program and operating expenditures. The accounts payable line item on a balance sheet is established to record an entity's liability for goods and services received or work completed by a contractor for which payment has not been made.

In prior years we reported:

- In fiscal year 1997, USAID did not provide the OIG with USAID/Washington's accrued expenditure methodology until after the completion of our fieldwork. Therefore, the OIG did not have an adequate opportunity to review and test the methodology used.

- In our fiscal year 1998 audit report, the OIG reported that USAID/Washington's accrued expenditure methodology did not comply with the standards established by the Federal Accounting Standards Advisory Board (FASAB). USAID did not properly calculate and report it's accrued expenditures and related accounts payable. USAID's methodology for calculating accounts payable at USAID/Washington was based on the scheduled completion date and the unliquidated obligation balance. In accordance with USAID's Office of Financial Management policy, these accounts payable were not accurately calculated at fiscal yearend. Accounts payable were recorded against dormant obligations with no activity during the prior 365 days or more. This material weakness impacted USAID's ability to prepare auditable financial statements.

- In fiscal year 1999, the OIG reported that the Office of Financial Management did not make any changes in its methodology for calculating accrued expenditures USAID/Washington. Therefore, USAID's accrued expenditures and accounts payable were not properly calculated and reported to permit the preparation of reliable financial statements as of September 30, 1999. The OIG provided USAID with adjustments totaling about $1.7 billion.[1]

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[1] Adjustments were noted in Report No. 0-000-00-004-F, issued February 9, 2000.

- As explained above, in previous years the OIG could not express an opinion on USAID's financial statements because our audit was impaired. Our audits of those years indicated that USAID's poorly functioning financial, accounting systems and other previously reported material internal control weaknesses caused this impairment. For those years, the OIG concluded that these deficiencies in USAID's accounting and financial management systems[2] created consequential risks that the financial statements could contain material misstatements. The amount of substantive testing required to express an opinion on the fairness of the presentation of USAID's financial statements would have been prohibitive and unattainable by the statutory deadline of March 1, for submitting the audited financial statements to the Office of Management and Budget (OMB) for those years. Accordingly, the OIG did not express an opinion on the fairness of the financial statements.

As a result of problems noted in prior year audits, the OIG, in agreement with USAID, decided to focus our fiscal year 2000 audit efforts on the material line items on its balance sheet.

AUDIT OBJECTIVE

This audit was performed to support the fiscal year 2000 Government Management and Reform Act (GMRA) audit of USAID's consolidated financial statements. For fiscal year 2000, the OIG agreed with USAID management to concentrate our audit efforts on selected major balance sheet items. Accordingly, the following is the objective of this audit:

Were USAID's Accrued Expenditures and Accounts Payable Properly Calculated And Reported to Permit the Preparation of Reliable Financial Statements as of September 30, 2000?

See Appendix I for a discussion of the scope and methodology for the audit.

The following section presents our findings for those matters that we consider reportable conditions and material weaknesses.

[2] According to OMB Circular A-127 and the Chief Financial Officers' Act, a financial management system includes supporting systems that contain the information needed to carry out financial management functions, manage financial operations, and report financial status information. The systems provide the information managers need to (1) carry out their fiduciary responsibilities; (2) deter fraud, waste, and abuse; and (3) relate financial consequences to agency program performance. Thus, in addition to basic accounting functions, USAID's financial management system includes supporting systems that perform performance measurement, budget, and procurement functions.

AUDIT FINDINGS

Were USAID's Accrued Expenditures and Accounts Payable Properly Calculated And Reported to Permit the Preparation of Reliable Financial Statements as of September 30, 2000?

We were unable to determine whether USAID properly calculated and reported accrued expenditures and accounts payable to permit the preparation of reliable financial statements as of September 30, 2000. Initially, USAID's plan was to use a statistical model to calculate accrued expenditures and related accounts payable for its Washington activities based on obligations recorded in the New Management System (NMS). However, USAID officials abandoned the planned process because of uncertainties about the accuracy of the scheduled completion dates for the contracts recorded in NMS. On December 12, 2000, USAID officials informed us that a new methodology was used to calculate accrued expenditures and related accounts payable, which resulted in an adjustment in excess of $1.9 billion to this line item. Subsequently, on December 20, 2000, USAID officials informed us that this methodology was modified and an additional adjustment of $300 million was recorded, for a total adjustment of about $2.3 billion. The adjustments were necessary to reverse the incorrect accrual calculations performed by the NMS and to record the accrual estimates derived from the application of the new accrual methodology. The amount of substantive testing needed to evaluate the new methodology and determine the reasonableness of the adjustments would have been prohibitive and unattainable by the statutory deadline for submitting the audited financial statements to the Office of Management and Budget. Accordingly, we were unable to determine the reliability of the balances reported for accrued expenditures and related accounts payable.

We Could Not Determine Whether USAID's Methodology for Calculating Accrued Expenditures And Accounts <u>Payable Met FASAB Standards</u>

The basic accounting principle for calculating accrued expenditures and recording accounts payable at the end of an accounting period is to ensure that federal entities record expenditures in the appropriate accounting period and match those expenditures with revenues of that period. The Financial Accounting Standards Advisory Board (FASAB)[3] does not believe that recognizing a liability prior to actual receipt or constructive receipt of goods or services should be adopted as a financial accounting standard.

[3] On October 19, 1999 the AICPA officially designated FASAB as GAAP.

The Statement of Federal Financial Accounting Standards No.1, paragraph 77, provides that:

> *When an entity accepts title to goods, whether the goods are delivered or in-transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices or those goods are not available when financial statements are prepared, the amounts owed should be estimated.*

We were unable to determine whether USAID's methodology for calculating accrued expenditures and accounts payable for its Washington activities complied with the generally accepted accounting principles. Under USAID's planned statistical methodology for calculating its accrued expenditures and accounts payable, the estimates calculated for Washington would not be supported by actual or constructive receipt of goods and services.

Under its new methodology, the Office of Financial Management performed a trend analysis of the accounts payable calculated and reported during fiscal years 1997 through 1999 and the disbursements for the subsequent accounting periods to establish its accounts payable balance for fiscal year 2000. As a result of the new methodology, for fiscal year 2000, USAID made an adjustment in excess of $2.3 billion—approximately 88 percent[4] of the accrued expenditure amount initially calculated by NMS—to more accurately report accrued expenditures and accounts payable balances in its financial statements. Due to time constraints, we were unable to evaluate the new methodology and the reasonableness of the adjustments.

We noted several deficiencies with USAID's obligation balances maintained in NMS that would have been used by USAID in its previous methodology for calculating accrued expenditures and related accounts payable. See Appendix III for additional details.

The OIG will review USAID's new methodology in the future to determine whether it complies with generally accepted accounting principles and whether it reduces audit risk associated with this line item. Therefore, the OIG makes no recommendations for fiscal year 2000.

USAID Took Action To
Improve Its Policies and Procedures

USAID took action to improve its policies and procedures and the quality of the financial data recorded in NMS. In prior years, we reported that USAID's unliquidated balances were not routinely reviewed and were not reliable for calculating accrued expenditures and accounts payable. USAID's financial managers agreed that system-generated information based on scheduled completion dates was not consistently reliable.

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[4] $2.3 billion of the $2.6 billion (approximately 88 percent) calculated for USAID/Washington accrued expenditures and accounts payable.

During fiscal year 2000 USAID:

- Implemented a project to review and deobligate those unnecessary unliquidated obligations established during fiscal year 1999 and prior periods. As a result, USAID deobligated over 1,200 obligations totaling about $126 million and revised its policies and procedures for performing periodic 1311 reviews[5].

- Provided obligation management training to financial management personnel, and

- Revised its Automated Directive System, Chapter 621, "Obligations" on September 11, 2000. This Automated Directive System policy requires assistant administrators and mission directors to certify that these procedures are being followed as a part of their annual budget submission.

The OIG will review USAID's implementation of these actions during our audit of USAID's fiscal year 2001 consolidated financial statement.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID's management, in general, agrees with the findings made in our report. The CFO explained that the $2.3 billion adjustment made to the general ledger accounts was necessary to reverse the incorrect accrual estimates performed by the New Management System (NMS) and to record the accrual estimates derived from the application of the newly implemented accrual methodology. USAID's management has proposed a new accrual methodology under the new accounting system, PHOENIX, which was placed in operation in December 2000. The OIG is pleased that management has taken steps to improve the agencies accrual estimates with the implementation of the trend analysis methodology used in FY 2000.

We look forward to working with management in reviewing this methodology during the FY 2001 audit of USAID's accrual estimates.

[5] 1311-reviews are periodic reviews of USAID unliquidated obligation balances that provide for effective fund management by financial managers.

SCOPE AND METHODOLOGY

SCOPE

For fiscal year 2000, the USAID Office of Inspector General (OIG) agreed with the Office of Financial Management to concentrate audit efforts on the selected major balance sheet items as was done in fiscal year 1999. Accordingly, the scope of this audit was limited to the review of USAID's accrued expenditures and accounts payable balances as of September 30, 2000. Therefore, this report does not contain an opinion about the fairness of the statements taken as a whole.

We did not conduct our audit in accordance with generally accepted government auditing standards because our scope was impaired.

Our primary focus was accrued expenditures and related accounts payable calculated for and reported for USAID/Washington by the New Management System (NMS). USAID reported \$3.4 billion on the balance sheet for accounts payable for fiscal year 2000. The accrued expenditures reviewed by the OIG accounted for approximately 78 percent[6] of accounts payable.

Due to the limited scope of this audit, internal control testing was limited to those controls used to calculate and report the accounts payable for USAID/Washington.

USAID had no laws and regulations that were material to the calculation and reporting of accounts payable. Therefore, we did not conduct any compliance reviews.

[6] Accrued expenditures reviewed divided by reported accounts payable as of September 30, 2000 (\$2.6 /\$3.4 billion)

METHODOLOGY

In accomplishing our audit objective, we reviewed the accrued expenses and accounts payable calculated and reported for USAID/Washington.

Specifically we:

- Obtained an understanding of USAID's procedures and processes for calculating accrued expenses and accounts payable.

- Assessed the risks associated with accrued expenditures and accounts payable calculated by the New Management System (NMS).

- Extracted the relevant financial data from NMS after USAID calculated and reported accrued expenditures and accounts payable at September 30, 2000. From this data, we performed analyses of USAID's calculations of accrued expenditures and accounts payable against:

    1) Obligations for grants;

    2) Obligations with no activity or minimal activity since the migration of financial data from the old Financial Accounting and Control System (FACS);

    3) Obligations with no activity from the date they were recorded;

    4) Obligations that were 365 days or more past their scheduled completion date;

    5) Obligations that were recorded before the actual constructive receipt of goods or services.

- Reviewed USAID's internal controls for reporting accounts payable on its fiscal year 2000 balance sheet.

- Obtained an understanding of USAID's internal controls with respect to compliance with USAID's policies and accounting standards and regulations, applicable to the accounts payable cycle.

  A materiality threshold of 5 percent was used. Based on USAID's 1999 Net Cost of Operations, any amount over $314 million was considered material and included in our review of the USAID 2000 financial statements.

USAID MANAGEMENT COMMENTS

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 1, 2001

MEMORANDUM

TO: IG/A/FA, Alvin A. Brown

FROM: CFO, Michael T. Smokovich

SUBJECT: Audit of USAID's Accrued Expenditure, Accounts Payable, and Related Internal Controls for Fiscal Year 2000

We have reviewed the draft report on your audit of the Agency's expense accrual estimates, accounts payable and related internal controls for FY 2000 and generally agree with your findings. As regards the $2.3 billion in adjusting entries to the standard general ledger accounts, it should be noted that they were necessary to reverse the incorrect accrual calculations performed by the New Management System and to record the accrual estimates derived from the application of the new accrual methodology. This clarification would help users of the statements and your report to fully understand the nature of the adjusting entries.

We look forward to working closely with you on the audit of the accrual estimates for FY 2001. As you know, the Agency long range plan is to have program managers estimate accrued expenditures at the obligation document level and record these estimates into the core accounting system (Phoenix) on a quarterly basis. However, for the first year of Phoenix operation we will not be able to implement this methodology. Therefore, we plan to use a trend analysis again in FY 2001 to estimate the accrued expenditures at year-end. Hopefully our respective staffs will be able to meet shortly after we finalize the FY 2000 Accountability Report to plan for the FY 2001 audit and to discuss the accrual methodology in particular.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

I would like to thank you and your staff for the professional and cooperative manner in which the audit was conducted.

Cc: M/CFO, S. Owens
M/CFO, T. Cully
M/MPI, S. Malone-Gilmer
M/FM, D. Ostermeyer
M/FM/CAR, T. Vapniarek
M/FM/CAR, E. White
M/FM/A, J. Swan

Schedule of Questionable Accrued Expenditures Based NMS Obligation Balances:

Category	Documents	Unliquidated Balance	Accrued Amount	Amount Questioned (Adjustment)
Grant Obligations[7]	2038	$2,414,368,808.34	$1,844,784,040.14	$1,844,784,040.14
Active Services	8	4,851,207.18	4,841,223.07	3,980,796.41
Refunds/Recoveries	47	1,520,598.98	1,520,598.98	1,520,598.98
No Recent Activity	315	25,000,898.62	24,790,992.38	24,790,992.38
Minimal Activity/FACS	151	12,704,630.24	12,257,232.24	12,257,232.24
Ended Services	207	21,712,603.96	21,446,243.78	21,446,243.78
Overaccrued	27	6,505,566.31	6,505,102.71	5,757,106.80
TA's over 12 months	47(OO) 198(AC)	250,710.72 512,065.62	250,710.72 512,065.62	250,710.72 512,065.62
Accrued Expenditure Equals Advance	20	2,811,193.85	2,811,193.85	2,811,193.85
Activity of In/Out Exp.	6	16,859.90	16,859.90	16,859.90
NMS Obligations Only	75	5,396,713.52	5,396,713.52	5,396,713.52
Total	**3139**	**$2,495,651,857.24**	**$1,925,132,976.91**	[8] **$1,923,524,554.34**

An explanation of each category that the OIG determined was possibly overstated is provided below:

- Grant obligations accounted for 96 percent of USAID's overstated accrued expenditures recorded in the New Management System at September 30, 2000. These obligations were established to fund grants. Advances established for grantees were accrued as expenditures and reported as accounts payable without considering the status of the actual advance liquidations.

- Active services include obligations for personal and non-personal service contracts that are ongoing; the OIG determined that the accrued expenditures for these contracts appear to be excessive.

- Refunds/Recoveries are those obligations in which activity seems to be complete and a refund or recovery was processed; the disbursement reversal increases the unliquidated balance that was fully accrued.

- No recent activity are those obligations for which there has been no activity for more than a year or the projects related to those obligations were complete.

- Minimal Activity/FACS are obligations that were migrated from USAID's Financial Accounting Control System in FY 1997 with minimal to no activity.

[7] Grant obligations are established to fund projects through advances to grantees for which no accounts payable should be calculated.

[8] Total questioned accrued expenditures that did not meet FASAB standards, rounded to $1.9 billion.

- Ended services represents contracts where no salary payments have been made for an extended time indicating employment has ended.

- The over-accrued category represents those obligations with a disbursement history of smaller payments.

- TA's over 12 months represents travel authorizations over 365 days old that were separated into two categories: (1) authorizations with no disbursement or approved vouchers; this may indicate that the travel did not take place, and (2) authorizations that were completed - carrier and per diem disbursements were recorded indicating completion of travel. USAID recorded an accrued expenditure and established accounts payable for the entire unliquidated balance for both categories.

- Accrued expenditure equals advances are those obligations for which accrued expenditures were established that equaled the advanced amounts; USAID accrued the entire unliquidated balance.

- Recorded expenses in/out are transactions in which various entries for disbursements are recorded and reversed, but the full obligated amount remains unused. USAID accrued the entire unliquidated balance.

Audit of USAID-Financed Alternative Development Activities in Peru

Audit Report No. 1-527-02-011-P

May 15, 2002

Regional Inspector General / San Salvador

U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

May 15, 2002

MEMORANDUM

FOR: USAID/Peru Director, Thomas L. Geiger

FROM: Regional Inspector General/San Salvador, Timothy E. Cox

SUBJECT: Audit of USAID-Financed Alternative Development Activities in Peru (Report No. 1-527-02-011-P)

This memorandum is our report on the subject audit.

The report contains no recommendations for your action. The findings presented in the report include that project management used a mid-term evaluation to make changes to program activities and that the team implemented a monitoring system in accordance with USAID policies.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Table of Contents

Summary of Results

The Regional Inspector General/San Salvador conducted an audit to determine how program funds were spent and how USAID/Peru modified its alternative development activities in response to a mid-term evaluation. Also, the audit was to determine if USAID/Peru implemented a monitoring system in accordance with USAID policy (page 3).

The results of the audit indicated that USAID/Peru spent $121,162,820 through December 31, 2001 on infrastructure, technical assistance, and monitoring (page 4) and that changes were made to the program as a result of the mid-term evaluation (page 5). Related to monitoring, USAID/Peru monitored the quality, timeliness and environmental impact of outputs in accordance with USAID policy (page 6).

Mission management agreed with the report findings (page 7).

Background

Reducing the production of illicit coca in Peru is an objective of the governments of Peru and of the United States. To support this goal, USAID has implemented a $194.5 million Alternative Development Program (ADP). To date, $121 million has been expended. The government of Peru has committed $115.5 million to the program.

The strategy followed to reduce illicit production has three elements:
(1) interdiction and law enforcement to disrupt narcotics trafficking and lower the price paid to farmers for coca leaf; (2) eradication to reduce coca cultivation and encourage farmers to plant other crops; and (3) alternative development.

Of the three elements, USAID is involved in alternative development. According to USAID/Peru planning documents, the ADP strategy is premised on the hypothesis that offering coca farmers alternative licit sources of income and employment, coupled with improved living conditions and organized communities with the ability to enforce laws, will lead them to voluntarily abandon coca cultivation and thereby achieve a sustainable, reduced level of coca production.

Audit Objectives

The Regional Inspector General/San Salvador included this audit in its fiscal year 2002 audit plan to answer the following questions:

> How have USAID funds been spent under the Alternative Development Program?
>
> How did USAID/Peru implement recommendations made in a mid-term evaluation of its Alternative Development Program to improve program effectiveness?

Did USAID/Peru implement a monitoring system for its alternative development activities in accordance with USAID policies?

Appendix I describes the audit's scope and methodology.

Audit Findings

How have USAID funds been spent under the Alternative Development Program?

Funds were spent under the Alternative Development Program (ADP) in three general categories – social and economic infrastructure, licit economic activities, and program monitoring and support.

According to USAID/Peru's records, accrued expenditures for the three categories through December 31, 2001 are presented in the table below:

Social and Economic Infrastructure	$59,032,133
Licit Economic Activities	51,208,259
Program Monitoring and Support	10,922,428
Total	$121,162,820

Expenditures for Social and Economic Infrastructure included rehabilitation of roads, bridges, potable water systems, classrooms, and latrines and strengthening local governments.

In the area of Licit Economic Activities, funds were spent promoting crop substitution (the cultivation of rice, pineapple, cacao, coffee and other products), providing technical assistance to farmers electing to grow crops other than coca, and providing micro-credit loans.

Program Monitoring and Support included expenditures for managing and tracking program results and to support the agency of the Peruvian government tasked with alternative development.

According to mission monitoring records, the ADP completed projects related to the following between 1995 and 2001:

Schools	1,066
Health Facilities	183
Potable Water	309
Sanitation	47
Bridges	127

The ADP also reported rehabilitating 206 kilometers of roads, conducting 171 studies, presenting 375 workshops, and providing technical assistance related to coffee, cacao, and other crops to 13,554 beneficiaries.

How did USAID/Peru implement recommendations made in a mid-term evaluation of its Alternative Development Program to improve program effectiveness?

USAID/Peru used the mid-term evaluation of its Alternative Development Program (ADP) to identify problem areas, to recognize successful components, and to modify the program based on problems and successes noted.

The mid-term evaluation was a comprehensive review commissioned by the ADP team and conducted by PricewaterhouseCoopers (PwC) between May and August 2000. The purpose of the evaluation was to review the design, strategy, achievements, and implementation of the ADP for the period 1995-1999 and to make recommendations to better align and focus resources to achieve program objectives. After the evaluation was delivered, the ADP team identified key themes or areas for improvement to achieve program goals. Actions were planned to address these deficiencies. Key themes included weaknesses or deficiencies in program design and in coordination with the Narcotics Affairs Section (NAS) of the U.S. Embassy in Peru.

Structural changes were made in the program consistent with the findings of PwC's evaluation. Prior to the evaluation, the ADP licit economic activities were focused on crop substitution. In response to the mid-term evaluation, the focus was shifted to household income. As a result, the program pursued activities to increase household income from agricultural as well as non-agricultural sources.

The mid-term evaluation produced a shift of focus in the infrastructure area as well. PwC found in the course of its work that infrastructure projects, once built, were often poorly maintained. As a result, strategies to improve maintenance were developed.

The ADP team focuses on reducing coca cultivation in targeted areas of Peru. As mentioned in the background section, the alternative development piece is one part of a three pronged strategy to eliminate illicit coca production. The other areas, eradication and interdiction, are activities controlled by the government of Peru in partnership with the NAS. Nevertheless, the mid-term evaluation raised the issue that eradication should be limited and used as a last resort. To address PwC's recommendation, USAID and embassy officials indicated that communication has improved coordination between the several parties involved with coca reduction. However, USAID officials indicated that a consensus on the proper circumstances for eradication has not yet been reached.

USAID/Peru also used the evaluation to identify areas of the program that were functioning well. The Association of Municipalities in the San Martin Region (AMRESAM), a local association of government institutions, was identified as a model for improving the capability of local government to meet citizens' needs. The ADP team implemented similar activities hoping to replicate the successes noted with AMRESAM.

Did USAID/Peru implement a monitoring system for its alternative development activities in accordance with USAID policies?

USAID/Peru implemented a monitoring system in accordance with USAID policies to track program outputs for all active contracts.

In accordance with ADS 202.3.4, USAID/Peru implemented a monitoring system that included the following general components:

- monitoring of the quality and timeliness of key outputs, and
- review of performance and financial reports.

To perform monitoring, USAID/Peru has implemented an annual survey and verification activity. At the beginning of each year, the ADP team selected a sample from the projects reportedly completed by program implementers during the year. ADP team members visited the selected projects to verify that they were completed. Additionally, a sample of people who received technical assistance was also drawn. These people were visited to confirm that technical assistance was delivered. The 2001 monitoring efforts were just beginning to get underway at the time of the audit. However, the process followed in 2001 was to be the same as in previous years.

Apart from the annual survey and verification work, USAID/Peru's monitoring system also included review of financial and performance reports, regular contact with program implementers, and frequent site visits.

In accordance with ADS 204.5.4, USAID/Peru implemented a system to monitor project environmental impacts. Under the system, current projects received an environmental impact assessment. In these assessments, potential environmental impacts such as erosion, waste disposal, and water quality degradation that could occur at local project sites were assessed and mitigation proposed.

Management Comments and Our Evaluation

Mission management expressed agreement with the report findings and reiterated the effectiveness of the monitoring program.

Scope and Methodology

Scope

The Regional Inspector General/San Salvador conducted this audit, in accordance with generally accepted government auditing standards, to determine how USAID/Peru expended $121.2 million in alternative development funds, how the mission responded to recommendations presented in a mid-term program review, and if USAID/Peru implemented a monitoring program in accordance with USAID policies.

We obtained an understanding of the management controls designed to ensure that program results were attained. These controls included management review and approval of annual work plans, review of quarterly progress reports, annual verification of program outputs, frequent site visits, and regular progress meetings.

We examined project-to-date financial reports to determine how program funds were spent. We determined, based on management input, which recommendations for the mid-term evaluation were accepted, and we examined work plans and quarterly reports to determine the progress made implementing accepted recommendations. We tested all open contracts or grants to determine whether USAID monitored the agreement during the 2001 calendar year as required by USAID policy.

The audit was conducted at USAID/Peru from February 19, 2002 through March 7, 2002.

Methodology

In conducting the audit, we interviewed mission management personnel and reviewed annual work plans, annual reports, and other project documentation.

We identified four monitoring activities that we judged to be a minimum level of monitoring required by USAID policy, the ADS. To determine the significance of our findings, we judged that we would issue a positive opinion if USAID/Peru performed the following monitoring on all contracts or grants:

- for contracts, the mission developed a Contract Monitoring Plan (ADS 202.3.4.1);
- for contracts and grants, the mission reviewed performance and financial reports from the implementers (ADS 202.3.4.1 and 22 CFR 226.51);
- for contracts and grants, the mission assessed the quality and timeliness of key outputs (ADS 202.3.4 and 22 CFR 226.51); and

- for contracts and grants, the mission obtained and reviewed reports that show changes in environmental quality, positive or negative, during the implementation of the activity (ADS 204.5.4 and 22 CFR 216).

Our opinion would be negative if less than 85 percent of the contracts or grants we reviewed met the minimum. The report would be qualified if more than 85 percent, but not all the contracts or grants we reviewed, met the minimum.

Management Comments

May 13, 2002

Mr. John Vernon
RIG auditor
San Salvador

The following are USAID Mission Comments on the draft IG Audit Report for the Alternative Development Program.

"The Alternative Development Program (ADP) is a US$194.5 million effort to achieve sustained coca reduction in Peru. ADP forms part of a two-prong strategy of interdiction to drive farm-gate prices of coca leaf down and alternative development to permanently dissuade farmers from the coca economy through a competitive array of economic benefits, infrastructure and participatory institutions. The problems addressed by the Program are complex, politically sensitive and highly visible. The Mission worked hard to put appropriate systems in place to 1) ensure appropriate programming and financing of activities, 2) effectively evaluate and correct program weaknesses, and 3) establish a reliable program performance monitoring system. We are pleased that Regional Inspector General Office/San Salvador found ADP adequately addressing these three areas".

Thanks again for your review on the AD Program.

Sincerely yours

Michael Maxey
Chief Development Alternative Program

USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE EFFECTIVENESS OF USAID/SOUTH AFRICA'S AWARD CLOSEOUT AND CONTRACTOR PERFORMANCE EVALUATION PROGRAMS

AUDIT REPORT NO. 4-674-06-005-P
March 13, 2006

PRETORIA, SOUTH AFRICA

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

March 13, 2006

MEMORANDUM

TO: USAID/South Africa Mission Director, Carleene Dei

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Audit of the Effectiveness of USAID/South Africa's Award Closeout and Contractor Performance Evaluation Programs (Report No. 4-674-06-005-P)

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

This report includes five recommendations that USAID/South Africa: 1) complete closeout procedures, or document an appropriate exception, for the 56 awards set forth in this report with unliquidated balances of $968,368 and deobligate those balances that are no longer needed; 2) develop a plan with milestones to identify, prioritize and complete closeouts for all awards that are currently past required closeout dates; 3) establish procedures to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures; 4) develop a plan to complete contractor performance evaluations that are past the required evaluation dates; and 5) establish procedures to ensure that past performance information is used and documented for source selection criteria as required by USAID policies and procedures. In your written comments, you concurred with four of the five recommendations.

In your response to the draft report, you included evidence that the specified corrective actions, including the deobligation of $968,368 in unliquidated balances, have taken place for all five recommendations. For the recommendation with which you did not concur, you presented additional evidence of compliance with policies and procedures that we used as a basis for revising the final report. We therefore consider that final action has been taken for all five recommendations, and, consequently, consider all five recommendations closed upon the issuance of this report.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

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CONTENTS

SUMMARY OF RESULTS

The Regional Inspector General/Pretoria conducted this audit to determine whether USAID/South Africa implemented award closeout and contractor performance evaluation programs as required by USAID policies and procedures. (See page 2.)

Although it did have programs for closing out awards and evaluating contractor performance, USAID/South Africa did not complete all award closeouts and contractor performance evaluations in the time frames required by USAID policies and procedures. Specifically, USAID/South Africa did not complete closeouts for 56 awards with unliquidated balances totaling $968,368 that were 36 months past their expiration date. Similarly, during fiscal years 2002, 2003 and 2004, the Mission did not complete 92 percent of required final contractor evaluations and 88 percent of required interim evaluations. Additionally, in fiscal years 2002, 2003 and 2004, USAID/South Africa did not document the use of past performance information in source selection for 20 percent of direct contracts. (See pages 3, 5 and 8.)

This report contains five recommendations to improve USAID/South Africa's programs for award closeouts and contractor performance evaluations. Those recommendations are that USAID/South Africa: 1) complete closeout procedures, or document an appropriate exception, for the 56 awards set forth in this report with unliquidated balances of $968,368 and deobligate those balances that are no longer needed; 2) develop a plan with milestones to identify, prioritize and complete closeouts for all awards that are currently past required closeout dates; 3) establish procedures to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures; 4) develop a plan to complete contractor performance evaluations that are past the required evaluation dates; and 5) establish procedures to ensure that past performance information is used for source selection criteria, and documented, as required by USAID policies and procedures. (See pages 5, 7 and 9)

For Recommendation Nos. 1 through 4, USAID/South Africa concurred with the recommended action and provided evidence that final action had been taken. The Mission closed all 56 awards and deobligated the remaining balance of $968,368; developed a plan with milestones for all awards currently past the required closeout dates; established procedures to ensure contractor performance evaluations are completed as required; and developed a plan to complete outstanding past performance evaluations. We therefore consider these recommendations closed upon the issuance of this report.

For Recommendation No. 5, with which USAID/South Africa did not concur, the Mission presented additional evidence of compliance with policies and procedures for two instances cited in the draft report, as well as evidence that procedures have been established to ensure that past performance information is used and documented for source selection criteria. Based on this evidence, we have revised the final report and consider that final action has taken place for this recommendation. We therefore consider this recommendation closed upon the issuance of this report.

(See page 10 for our evaluation of management comments.)

BACKGROUND

USAID/South Africa's Office of Acquisition and Assistance (OAA) has contracting responsibility for the Mission. The office is staffed with a contracting officer, a senior acquisition and assistance specialist and six other specialists and assistants. In addition, there are cognizant technical officers (CTO) located in the Mission's various program offices that participate in the contracting process. Contracting responsibilities for the Mission include awarding contracts, grants and cooperative agreements, as well as closing them. OAA also advises CTOs, who monitor awards, when contractor performance evaluations must be completed.

USAID policies and procedures state that missions should have formal control systems in operation for the closeout of contracts and grants. Whenever an award expires, the control system should be initiated to ensure that the Controller, CTO, contractor/grantee, and OAA perform their various closeout responsibilities. These responsibilities ensure that the disposition of all funds, as well as non-expendable property, is properly authorized and documented.

In addition to the closeout process, USAID policies and procedures state that there is an agency-wide control system for evaluating contractor performance, gathering the results of those evaluations and using the information as a major evaluation factor in the selection of new contractors. Performance evaluations are required for expiring contracts, as well as annually (interim) for active contracts. The completion, processing, and use of performance evaluations result from a joint effort between OAA personnel and CTOs.

For fiscal year 2005, USAID/South Africa reported budget authorizations totaling $5.5 million for operating expense funds, in addition to $83 million for program funds.

AUDIT OBJECTIVES

This audit was conducted at USAID/South Africa as part of the Regional Inspector General/Pretoria's annual audit plan. The audit was designed to answer the following questions:

- Did USAID/South Africa implement an award closeout program as required by USAID policies and procedures?

- Did USAID/South Africa implement a contractor performance evaluation program as required by USAID policies and procedures?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Did USAID/South Africa implement an award closeout program as required by USAID policies and procedures?

USAID/South Africa did not implement an award closeout program as required by USAID policies and procedures. Although the Mission had an award closeout program, it did not follow USAID policies and procedures with regard to closing out expired contracts, grants and cooperative agreements within the required timeframes. Consequently, the Mission has accumulated a significant backlog of expired awards that have not been closed out. This issue is discussed in detail below.

Award Closeouts Were Not Completed

Summary: USAID/South Africa did not complete closeouts of awards in the time frames required by USAID policies and procedures. This occurred because USAID/South Africa did not devote enough resources to complete the closeouts when required. Also, the Mission did not have an adequate information system. As a result, USAID/South Africa did not have the required assurance that the disposition of remaining fund balances and non-expendable property had been properly authorized and documented.

ADS Chapter 302, *USAID Direct Contracting*, states that the *Federal Acquisition Regulation* (FAR) is an ADS mandatory reference, while the *Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance* (Guidebook) serves as a supplementary reference. FAR Part 4 establishes several different time frames for closing out various types of contracts[1], as well as describing numerous steps to be taken in the process. The Guidebook states that all USAID missions should have formal systems in operation for the close out of contracts and grants. As a basis for these systems, the Guidebook cites Contract Information Bulletin (CIB) 90-12 as an additional supplement. This CIB states that a continuing priority of USAID is the expeditious closeout of acquisition and assistance instruments after the goods have been received or services have been delivered. It reiterates the necessity for a firm commitment by all procurement officials to effect closeout of instruments in a timely and comprehensive manner. In order to accomplish this, it contains 13 individual procedures for cost type contracts and 13 individual procedures for grants and cooperative agreements, as well as individual procedures for other types of instruments. USAID guidance states that the closeout process is vital in ensuring that the disposition of remaining fund balances and non-expendable property has been properly authorized and documented.

[1] FAR 4.804-1 provides the following closeout requirements: 1) simplified acquisitions—immediately upon completion of delivery and payment, 2) contracts requiring settlement of indirect cost rates—within 36 months of evidence of physical completion, 3) firm-fixed price contracts—within six months of confirmation of contract completion, and 4) all other contracts—within 20 months of evidence of physical completion. These standards do not apply in cases of litigation or appeal, outstanding audit or financial issues, or termination.

In order to test whether USAID/South Africa had closed out awards in accordance with guidance, we began by testing documents in the Mission's accounting system that we considered the highest risk, which were documents over 36 months since expiration date. We selected 36 months to provide sufficient time for the settlement of indirect rates and the completion of financial audits or other final settlement activities as set forth in FAR Part 4.

As reported by the Controller's Office[2], there were a total of 95 awards with undisbursed balances of $1,099,957 that were 36 months past their reported expiration dates. Of these 95 awards, we determined that 36 awards with total undisbursed balances of $131,050 were either not subject to closeout procedures or not the responsibility of the Office of Acquisition and Assistance (OAA)[3]. However, 59 of those awards, with an undisbursed balance of $968,907, came under the responsibility of OAA.

From this total of 59 awards, 56 items were still open and, therefore, beyond the timeframes specified in USAID policies and procedures. These 56 documents constituted an undisbursed balance of $968,368, accounting for 99.9 percent of the total unliquidated balances for awards over 36 months past their reported expiration date under OAA's closeout responsibility[4]. Details of the individual awards are provided in Appendix III of this report. The other three awards were closed, comprising a balance of $539, or .1 percent of the total unliquidated balances, which was in the process of being deobligated at the time of our field work. This data is summarized in Table 1 below.

Table 1: Awards with Unliquidated Balances Over 36 Months Past Expiration Dates

Status of Awards	Number of Awards	Unliquidated Balances	Percentage of No. of Awards.	Percentage of Unliquidated Balances
Open	56	$ 968,368	94.9%	99.9%
Closed	3	$ 539	5.1%	.1%
Total Awards	59	$ 968,907	100%	100%

The awards that remained open over 36 months were the result of a number of factors. In addition to USAID/South Africa not having its own contracting officer for over a year, there was a lack of available Mission staff devoted to the closeout process. A contributory factor was that the Mission did not have an adequate contract management information system to identify awards that remained open and that were due for closeout. These factors ultimately resulted in a substantial risk that a significant level of

[2] Source: Mission Accounting and Control System (MACS), as of August 31, 2005. The MACS is an accounting system that does not contain contract closeout information.
[3] These other awards were separately addressed in Memorandum Report No. 4-674-06-001-S.
[4] Fifteen of these awards were in the process of being closed out but had not been completed at the time of our fieldwork.

funding remained unavailable for better use. Also, there was little assurance that non-expendable property associated with the awards was disposed of as authorized.

USAID/South Africa had recognized that a compliance problem existed and consequently has identified and partially addressed some of the above causes for the noncompliance. For example, during the past two years, two additional personnel have been added to the staff to work on award closeouts. Additionally, OAA has been working in conjunction with the Controller's Office and Data Management Division (DMD), and are planning to develop a stand-alone data base for managing the closeout process. To strengthen internal controls, OAA has also been improving coordination with the Controller's Office, as well as developing a new mission order to further ensure compliance with USAID policies and procedures.

For these reasons we are not making any recommendation regarding Mission internal controls governing closeouts. However, to eliminate the backlog of unclosed awards that has remained beyond required closeout dates, and reduce the risk that funds are not being put to better use, we are making the following recommendations.

Recommendation No. 1: We recommend that USAID/South Africa complete closeout procedures, or document an appropriate exception, for the 56 awards set forth in this report with unliquidated balances of $968,368 and deobligate those balances that are no longer needed.

Recommendation No. 2: We recommend that USAID/South Africa develop a plan with milestones to identify, prioritize and complete closeouts for all awards that are currently past the required closeout dates.

Did USAID/South Africa implement a contractor performance evaluation program as required by USAID policies and procedures?

USAID/South Africa did not implement a contactor performance evaluation program as required by USAID policies and procedures. Although the Mission did have a performance evaluation program, it did not follow USAID policies and procedures with regard to conducting interim and final contractor performance evaluations within required timeframes. It, therefore, had accumulated a significant backlog of contracts that have not been evaluated. Similarly, the Mission did not document past performance information in source selection as required. These issues are discussed in detail below.

Performance Evaluations Were Not Completed

Summary: USAID/South Africa did not complete contractor performance evaluations in the time frames required by USAID policies. This occurred because USAID/South Africa did not devote enough resources to complete the evaluations when required. Weak controls also contributed to the problem. As a result, contractor performance evaluations were not available to USAID and other Federal contracting officers for use when evaluating contractors for new contracting actions, which could potentially lead to the award of future contracts to poorly performing contractors.

ADS Chapter 302.5.9, *Evaluation of Contractor Performance*, states that contracts[5] must be evaluated at least annually (for contacts exceeding one year in duration) and upon completion of activities. USAID's *Past Performance Handbook: contractor Performance Report Cards*, a mandatory reference in ADS Chapter 302, provides the procedures for conducting contractor performance evaluations. Contract Information Bulletin 97-28, an appendix in the *Past Performance Handbook*, notes that an evaluation should be initiated within 30 days after completion of activities (or in October for active contracts), and completed within 90 days (or December for active contracts)[6]. Each subsequent interim evaluation must be performed before 12 months have elapsed since the previous interim evaluation. The ADS states that the initial performance evaluation is a collaborative effort between the contracting office and the technical office. It states that when a contract needs an evaluation, the responsible contracting officer (CO) should request that the CTO develop the evaluation since the CTO is the party most knowledgeable about contractor performance in the areas of quality, cost control, and timeliness.

USAID/South Africa did not complete all the required interim and final performance evaluations on all relevant contracts during fiscal years 2002, 2003 and 2004. Reported contracting actions that we sampled requiring a final evaluation during this period had a total value of $156 million. Of the 36 expired contracts and task orders that we tested during this three year period, we determined that 33 contracts, representing 92 percent of the total, had not been evaluated. Only 3 contracts had completed evaluations, or 8 percent of the total. Table 2 compares the number of final evaluations required against the number actually completed.

Table 2: Required Final Evaluations Compared to Completed Final Evaluations

Fiscal Year	Required Evaluations	Completed Evaluations	Overdue Evaluations	Percentage of Overdue Evaluations
FY 2002	12	2	10	83%
FY 2003	18	1	17	94%
FY 2004	6	0	6	100%
Total	36	3	33	92%

Similarly, for fiscal years 2002, 2003, and 2004, USAID/South Africa did not complete all of the interim evaluations as required. Of the 58 required interim evaluations, we determined that 51 interim evaluations, representing 88 percent of the total, had not been completed. The Mission had documentation supporting only 7 completed evaluations that we sampled, or 12 percent of the total required. Table 3 below details the number of interim evaluations compared to the total required.

[5] Contracts requiring evaluations include those in excess of $100,000, as well as individual task orders in excess of $100,000 under indefinite quantity contracts.
[6] The October and December time periods were published in supplemental policy guidance issued by USAID's Office of Acquisition and Assistance in May 2002.

Table 3: Required Interim Evaluations Compared to Completed Interim Evaluations

Fiscal Year	Required Evaluations	Completed Evaluations	Overdue Evaluations	Percentage of Overdue Evaluations
FY 2002	13	2	11	85%
FY 2003	25	3	22	88%
FY 2004	20	2	18	90%
Total	58	7	51	88%

The major factor that contributed to the low compliance with performance evaluation requirements was the lack of adequate resources devoted to the process. USAID/South Africa, however, had observed that evaluations were not being completed as required, and as a result has hired two additional personnel during the last two years. This increase in staff should assist the Mission in improving future compliance. A contributing factor was the lack of an adequate information system for managing evaluations. We also noted that there were weak controls for maintaining coordination between OAA staff and CTOs.

By not completing the majority of required performance evaluations, contracting officers at USAID and other Federal agencies did not have the evaluations to use in their source selection procedures when evaluating potential contractors. This raised the risk that the goals of FAR Subpart 42 will not be achieved. These goals, designed to prevent poorly performing contractors from being selected, include contractor conformance to contract requirements and standards of good workmanship, control of costs, adherence to contract schedules, and commitment to customer satisfaction, as well as concern for the interest of the customer.

In order to improve timeliness and compliance with USAID performance evaluation policies and procedures, we are making the following recommendations.

Recommendation No. 3: We recommend that USAID/South Africa establish procedures to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures.

Recommendation No. 4: We recommend that USAID/South Africa develop a plan with milestones to complete contractor performance evaluations that are past the required evaluation dates.

Past Performance Information was Not Always Documented in Source Selection Process

Summary: USAID/South Africa did not document past performance information in the source selection process for two of its new direct contracts as required by USAID policies. This occurred because USAID/South Africa did not have adequate controls for maintaining coordination between the Office of Acquisition and Assistance and the program offices to ensure that the required performance information was retained. As a result, contractor past performance information was not documented for source selection for all new contracting actions, which could potentially lead to the award of contracts to poorly performing contractors.

The *Federal Acquisition Streamlining Act of 1994* (FASA) states that Congress concluded that the use of past performance information is one of the relevant factors that a contracting official should consider in awarding a contract. FAR Subpart 42.15 continues by stating that past performance information is relevant information for future source selection purposes.

To implement these regulations, ADS 302.5.10, *Past Performance Information in Source Selection*, states that the contracting officer should use past performance information (PPI) for two different purposes when selecting an offeror to whom to award the contract. The offeror must have a satisfactory performance record in order for the contracting officer to make a positive determination that the offeror is responsible and therefore eligible to receive the award. In addition, the source selection authority (usually the contracting officer), supported by the evaluation team, must normally evaluate the offeror's past performance to make a comparative assessment of the offeror's past performance as an indicator of how well the offeror is likely to perform the contract. It further states that documented PPI obtained in accordance with this section is retained in the contract files as part of the source selection documentation.

Although USAID/South Africa did use PPI in the source selection process for the new direct contracts examined, it did not document the use of PPI in all required instances. We determined that the Mission did not retain PPI documentation as required for two of 10 contracts for which PPI was used. Table 4 below provides detail on the number of contracts awarded using PPI, and those not documented.

Table 4: Past Performance Information (PPI) Used In Source Selection

Fiscal Year	Direct Awards	PPI Used	PPI Not Used	PPI Not Documented	Percentage PPI Not Used	Percentage PPI Not Documented
2002	4	4	0	2	0%	50%
2003	5	5	0	0	0%	0%
2004	1	1	0	0	0%	0%
Total	10	10	0	2	0%	20%

One factor that contributed to the problems with documenting past performance information requirements was the lack of adequate resources devoted to the process. As with performance evaluations, USAID/South Africa had observed that PPI was not being documented as required, and, as a result, has hired two additional personnel during the last two years. This increase in staff should assist the Mission in improving future compliance. A contributing factor, however, was the lack of local procedures to document PPI in source selection, and coordinate information flows between OAA and the respective CTOs.

Without documentation of PPI in source selection, the risk is increased that the goals of FAR Subpart 42 will not be achieved in future awards. These goals include contractor conformance to contract requirements and standards of good workmanship, control of costs, adherence to contract schedules, and commitment to customer satisfaction, as well as concern for the interest of the customer.

In order to improve compliance with USAID policies and procedures, as well as reduce the risk of not achieving the goals of Federal regulation, we are making the following recommendation.

Recommendation No. 5: We recommend that USAID/South Africa establish procedures to ensure that past performance information is used for source selection criteria, and documented, as required by USAID policies and procedures.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/South Africa concurred with four of our five recommendations. The Mission described the actions taken and those planned to be taken to address our concerns. The Mission's comments and our evaluation of those comments are summarized below.

In response to Recommendation Nos. 1 through 4, USAID/South Africa concurred with the recommendations and provided evidence that it had completed the recommended actions. For Recommendation No. 1, the Mission closed out all 56 awards and deobligated $968,368 of related unliquidated balances; for Recommendation No. 2, the Mission developed a plan with milestones to identify, prioritize, and complete closeouts for all awards that are currently past the required closeout dates; for Recommendation No. 3, the Mission issued a standard operating procedure to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures; and for Recommendation No. 4 the Mission developed a plan with milestones to complete contractor performance evaluations that are past the required evaluation dates. The Mission concluded that it would not be practical to complete all the reported delinquent evaluations due to the fact that some are in excess of five years old and some involve multiple interim evaluations. The Mission, instead, proposed to complete one final evaluation for all expired awards, and one interim evaluation encompassing all outstanding periods for active awards, which we consider consistent with the intent of the recommendation. Consequently, we consider final action to have been taken on Recommendation Nos. 1 through 4, and, therefore, consider them closed upon the issuance of this report.

In response to Recommendation No. 5, USAID/South Africa did not concur with the recommendation. The Mission stated that it had evidence that past performance information was used and documented in two awards that were identified in the draft report as not having the information used or documented during source selection. The Mission provided evidence to us that adequately supported their position regarding the two awards. We therefore have revised the final report to reflect this additional evidence. The Mission also provided evidence that a standard operating procedure has been issued to ensure that past performance information is used for source selection criteria, and documented, as required by USAID policies and procedures. Consequently, we consider final action to have been taken on Recommendation No.5, and, therefore, consider this recommendation closed upon the issuance of this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria conducted this audit in accordance with generally accepted government auditing standards. The fieldwork was conducted at USAID/South Africa from October 31, 2005 to January 12, 2006. For the review of the closeout program, we examined all contract, grant and cooperative agreement awards with remaining balances that were at least 36 months past reported expiration dates. These totaled 95 awards with remaining balances of $1,099,957. Of these 95 awards, we determined that 36 awards with total undisbursed balances of $131,050 were either not subject to closeout procedures or not the responsibility of the Office of Acquisition and Assistance (OAA). Therefore, the audit focused on the 59 remaining awards with total undisbursed balances of $968,907. For the examination of the contractor performance evaluation program, we examined a judgmental sample of contracts in fiscal years 2002, 2003 and 2004 that required either a final or an interim evaluation (contract actions over $100,000). For the examination of the use of past performance information, we examined all of the new direct contracts during fiscal years 2002, 2003 and 2004.

We examined the significant internal controls associated with identifying, prioritizing, and closing out of contracts, grants and cooperative agreements in a timely manner, as well as completing performance evaluation of contractors. This examination included a determination of whether closeouts and performance evaluations were actually completed and whether they were completed within the required time frames. The types of evidence included 1) interviews with personnel in the Office of Acquisition and Assistance, as well as CTOs in the program offices; 2) a review of the contract and grant data base and related controls; 3) a review of contract files and associated documents; and 4) a review of the use of the National Institutes of Health Contractor Performance Review System.

In conducting our fieldwork, we tested the validity of computer-generated data against original source documents and found it reliable for the purposes of answering the audit objectives. Additionally, we found no significant prior audit affecting the areas examined.

Methodology

To accomplish our audit objectives, we interviewed cognizant officials, reviewed applicable USAID and Federal policies and procedures, and assessed significant management controls and risk exposure relating to the management of award closeouts and contractor performance evaluations. Management controls included identifying and recording the completion of required closeouts and performance evaluations. For relevant awards that required either a closeout or a performance evaluation, we performed a time analysis to determine whether the required procedure was completed within the required time frame.

We set the materiality threshold of five percent to determine whether exceptions were significant and therefore reportable.

Due to the various timeframes for closing different types of contracts, as well as the differences between the relevant criteria pertaining to contracts, grants, and cooperative agreements, we were unable to determine the actual population of awards that were eligible for closeout. We, therefore, selected awards for our sample that we considered high risk—those awards over 36 months since reported expiration with remaining obligation balances—to answer the audit objective related to closeouts.

For the objective relating to contractor evaluations, we judgmentally sampled 36 of 44 expired contract actions (or 82 percent) during fiscal years 2002, 2003, and 2004 that required a final evaluation. Concerning interim evaluations, we sampled 18 active contracts out of a population of 18 active contracts that required one or more interim evaluations during fiscal years 2002, 2003 and 2004. For the objective relating to past performance information, we sampled all new direct contracts awarded during fiscal years 2002, 2003, and 2004.

The results relating to closeouts can not be projected to the entire population of contracts, grants and cooperative agreements. Likewise, the results pertaining to the completion of evaluations cannot be projected to the entire population. However, the results concerning the use of past performance information represent the actual results for the entire population of new direct contracts for the period examined.

MANAGEMENT COMMENTS

USAID | SOUTH AFRICA
FROM THE AMERICAN PEOPLE

UNITED STATES GOVERNMENT
ACTION M E M O R A N D U M

DATE	:	February 28, 2006
TO	:	Jay Rollins, Regional Inspector General/Pretoria
FROM	:	Carlene Dei, Mission Director /s/
SUBJECT	:	Management comments – Audit of USAID/South Africa's Award Closeout and Contractor Performance Evaluation Programs (Report # 4- 674-06-00X-P).

The Mission has reviewed the subject draft audit report. We agree with four of the five audit recommendations, and appreciate RIG's acknowledgement of the serious prior and ongoing efforts by the mission to address the timely closeout of expired awards as well as the completion of required CPRs. Prior to the commencement of this audit, we recognized the unsatisfactory state of award closeouts and contractor performance reviews (CPRs) in the mission, and began to take steps toward corrective action and future regulatory compliance. Two full-time personnel have been designated to perform the closeout function for the mission, and additional short-term support has been employed to assist with research, data entry, and file disposition. Mission orders on the closeout and the CPR processes, to include time frames and assignment of responsibilities, are currently under revision by OAA personnel. (*Attachment I, II)* Additionally, OAA personnel attended a special closeout training session conducted by Steve Tashjian, Lead Contract Specialist, M/OAA/CAS on February 28, 2006, and effective from June 30, 2006, subsequent closeout training, including pre-and post-award guidance, will be provided by OAA closeout specialists on an ongoing basis to awardees and mission technical offices. Lastly, the mission will continue to support the concurrent efforts of the technical and financial management offices to identify and de-obligate or de-commit excessive residual balances.

The following is our response to each of the recommendations made, and a summary of the actions planned to resolve them.

<u>Recommendation #1</u>: We recommend that USAID/South Africa complete closeout procedures, or document an appropriate exception, for the 56 awards set forth in this report with unliquidated balances of $968,368, and deobligate those balances that are no longer needed.

The mission concurs with this recommendation and has taken the appropriate steps to complete the closeout of these awards and to deobligate excessive residual balances.

- Four of the 56 awards cited are documented as closed. Attached are the corresponding completion statements, shelf lists, and/or other OAA official closeout documentation. *(Attachment III-VI)*
- The remaining 52 of the 56 awards cited have been administratively closed as evidenced by the attached action memorandum to the Mission Director dated February 27, 2006. The subject awards are shown in italics. *(Attachment VII)*
- The total amount of unliquidated balances cited, $968,368, identified as either excessive or residual, has been de-obligated or de-committed by the Financial Management Office (FMO) and is now available for recommitment for other activities. Attached is a Financial Status Report which reflects the resulting nil balances. *(Attachment VIII)*

In light of the fact that all of the 56 awards cited have been closed and the related balances de-obligated or de-committed, we request that this recommendation be closed upon issuance of the final report.

<u>Recommendation #2</u>: We recommend that USAID/South Africa develop a plan with milestones to identify, prioritize, and complete closeouts for all awards that are currently past the required closeout dates.

The Mission concurs with this recommendation. The Office of Acquisition and Assistance (OAA) has developed a plan to identify, prioritize, and complete closeouts (or document appropriate exceptions) for all awards that are currently past the required closeout dates.

- By June 30, 2006, OAA closeout personnel in collaboration with FMO and the Data Management Division (DMD) will design, populate, and **implement a closeout database** to facilitate the collection, analysis, and tracking of expired awards and related closeout activity. OAA personnel will use this database to compile an up-to-date list, categorized by award type and end date, of all expired awards required to be closed by USAID/South Africa.

- By September 30, 2006, OAA personnel will identify and complete closeout of all **expired purchase orders and personal services contracts** that are past the required closeout date.

- By December 31, 2006, OAA will identify and complete the closeout of **all grants and cooperative agreements** that are past the required closeout date.

- By March 31, 2007, OAA will identify and complete the closeout of **all contracts and IQC task orders** that are past the required closeout date.

- By June 30, 2007, OAA personnel will finalize the closeout process, or document appropriate exceptions, for all awards that are currently past the required dates (as of December 31, 2005). This will include:

  - Verification of the de-obligation or de-commitment of all residual excessive balances;
  - Archiving or other disposition of retired files in accordance with agency regulations; and
  - Reconciliation of the closeout database.

The summary above constitutes the Mission's plan for corrective action complete with milestones. We, therefore request that this recommendation be closed upon issuance of the final report.

<u>Recommendation #3</u>: We recommend that USAID/South Africa establish procedures to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures.

The Mission concurs with this recommendation. Steps have been taken to ensure that contractor performance evaluations are completed in accordance with USAID policies and procedures.

- Procedures, time frames, and assignment of responsibilities have been established per the attached operating procedure *(Attachment IX)* to ensure that contractor performance evaluations are completed on a timely basis.

Based upon the above plan, we request that this recommendation be closed upon issuance of the final report.

<u>Recommendation #4</u>: We recommend that USAID/South Africa develop a plan with milestones to complete contractor performance evaluations that are past the required evaluation dates.

The Mission concurs with this recommendation. Following is the **status of the CPRs** past the required evaluation dates.

- The OIG Audit Report cited 84 CPRs—33 final and 51 interim, pertaining to 54 contractors, that were past the required evaluation dates. Upon analyzing the contracts and task orders tested in the subject audit sampling, OAA personnel have concluded that it would not be practical or cost effective to the US Government to complete all of the outstanding reports for the following reasons:

- In some cases, more than five years have elapsed since the expiration of these awards, and the personnel familiar with the contractors' performance are no longer available to the mission.
- In some cases, multiple interim evaluations are outstanding for the same contractor that could be combined into one interim evaluation or final evaluation in instances where the award is no longer active.

- In light of the above, OAA has concluded that it would be feasible for the mission to ensure the completion and submission of 60 contractor performance reviews for the 54 contractors cited (17 interim evaluations and 43 final evaluations) in order to rectify those currently in delinquent status, preserve the integrity of the CPR system, and promote the effective and efficient use of USG resources. A list of outstanding evaluations to be completed is attached. *(Attachment X)*

    - In instances where multiple interim evaluations are outstanding for the same award and the award is still active, the Cognizant Technical Officer (CTO) will complete one interim evaluation which encompasses all outstanding (unevaluated) periods of performance.
    - In all instances where an award has expired, the CTO will complete one final evaluation which encompasses **all** outstanding (unevaluated) periods of performance up to and including the end date.

A **plan with milestones** to complete contractor performance evaluations is summarized below:

- By March 31, 2006, OAA will **design, populate, and implement a CPR database** of all current awards and relevant details necessary to facilitate the tracking and completion of contractor performance reviews required to be completed. The Contracting Officer will ensure the **entry of all awards** due for performance evaluations into the CPR system

- By April 30, 2006, and no less than quarterly thereafter, the contracting officer or the contracting officer's designee will **produce CPS management reports** which reflect the status of required CPRs. Notices of delinquent evaluations will be provided to appropriate technical officers and copied to the mission director.

- Annually, during the **November Program Implementation Reviews** (PIRs), technical offices will be required to **report on the status** of CPRs that are the responsibility of their respective offices.

- By March 31, 2006, OAA personnel will coordinate and oversee the completion of all CPRs that are currently past the required evaluation dates (as of December 31, 2005).

The summary above constitutes the Mission's plan with milestones to complete past due performance evaluations. The Mission requests that this recommendation be closed upon issuance of the final report.

<u>Recommendation #5</u>: We recommend that USAID/South Africa establish procedures to ensure that past performance information is used for source selection criteria, and documented, as required by USAID policies and procedures.

The Mission does not concur with this recommendation for the following reason. In 10 out of 10 contracts reviewed, there was evidence that past performance information (PPI) was used in source selection, and in eight out of 10 cases, documentation was retained in the contract file. We feel that this is evidence that procedures are currently in place to facilitate the use of PPI in source selection, and are being followed the overwhelming majority of the time. Nevertheless, procedures will be reissued per the attached standard operating procedure (Attachment XI) to further ensure that past performance information is used in source selection criteria, and documented, as required by USAID polices and procedures.

Based upon the above comments and findings, the Mission requests that this recommendation be closed upon issuance of the final report.

Drafted by: ________________ S. Reed-Allen, OAA/Sr. Closeout Specialist

Clearance: ________________ Charles Signer, OAA/Acting Contracting Officer

________________ Brian Conklin, OFM/Acting Controller

________________ Denise Rollins, DIR/Deputy Mission Director

USAID/South Africa Open Awards Expired Over 36 Months with Undisbursed Balances (as of August 31, 2005)

No. of Awards	Commitment Doc No.	Earmark Control No.	End Date	Undisbursed Amount
1	674-0302-A-00-6055-04	C890007	09/30/89	$12,929.07
2	674-0309-A-00-0039-00	B900191	12/31/99	2,785.85
3	674-0510-G-SS-8029-00	B880078	12/31/89	36,701.24
4	AAI-674-P-00-99-00031	C990034	05/14/99	4,081.00
5	CA-674-0312-A-98-00045	C960604	03/30/02	9,634.00
6(a)	CO-674-0315-C-00-5143	C980227	08/31/00	35,956.00
6(b)	CO-674-0315-C-00-5143	C970018	08/31/00	21,011.96
7	CO-674-0318-C-00-5155	B950400	07/31/96	13,638.72
8	CO-674-0318-G-CI-5037	C980004	03/31/01	0.34
9	CO-DPE-5832-Z-OO-9032	C940261	09/28/94	1,324.79
10(a)	CO-DPE-5836-Q-02-1043	C940426	09/29/96	14,420.86
10(b)	CO-DPE-5836-Q-02-1043	C940427	09/29/96	8,276.21
11	CON-HNE-0000-I-04-2100	B950014	06/24/95	4,898.17
12	GA-674-0230-G-SS-9039	C920073	06/01/96	8,000.00
13	GA-674-0301-G-SS-4017	C940014	11/30/94	10,860.58
14	GA-674-0301-G-SS-4156	C960047	04/30/97	11.00
15	GA-674-0302-G-SS-3108	C930133	08/31/95	0.01
16	GA-674-0302-G-SS-3114	C930137	08/31/96	51,820.37
17	GA-674-0302-G-SS-4024	C950090	09/24/96	18,427.98
18	GA-674-0302-G-SS-4100	C950213	09/30/96	22,530.94

19	GA-674-0309-G-SS-2057	C920105	09/30/95	5,543.17
20	GA-674-0309-G-SS-3118	C930155	03/31/96	17,413.03
21	GA-674-0309-G-SS-3132	C940333	10/31/97	16.94
22	GA-674-0309-G-SS-5025	C950178	08/31/98	49,999.99
23(a)	GA-674-0314-G-SS-3090	C970130	02/28/99	4,522.98
23(b)	GA-674-0314-G-SS-3090	C930132	02/28/99	1,568.77
24	GA-674-0314-G-SS-4109	C940291	11/30/97	17,617.49
25	GA-674-0510-G-SS-2106	B920394	12/31/93	65,813.96
26	GA-674-A-00-98-00054	C950514	11/30/99	2,451.14
27	GA-674-G-00-01-00061	B100186	09/30/01	186.30
28	GR-611-004-G-80-00001	C000325	08/31/02	108,360.00
29	IQC-674-I-00-00-00005	C980437	07/26/02	13,323.45
30	IQC-AEP-5470-I-00-5034	B950426	12/31/96	30,799.16
31	IQC-PCE-I-00-98-00016	C990171	10/31/01	41,041.09
32	IQC-PCE-I-00-98-00017	C990153	10/12/99	4,437.98
33	IQC-PCE-OO-00-00009	C990107	06/20/00	40,654.98
34	IQC-PDC-5832-I-00-0082	C930228	12/01/93	3,911.26
35	LAG-A-00-99-00020-00	B990142	09/06/01	15,815.45
36	LAG-I-00-99-00008-00	C990124	06/30/01	13,881.47
37	OUT-PCE-0-810-93-00031	C970078	01/30/98	19,856.78
38	PO-674-0318-O-99-00032	C990036	09/30/02	54.83

39	PO-674-0323-O-99-00039	C970313	06/30/99	66.39
40	PO-674-O-00-01-00009	C000203	02/15/01	4,357.66
41(a)	PSC-674-0318-S-00-0026	C990058	05/30/00	608.24
41(b)	PSC-674-0318-S-00-0026	C980030	05/30/01	1.03
42(a)	PO-674-O-00-02-00001	C960155	09/30/02	295.00
42(b)	PO-674-O-00-02-00001	C100152	09/30/02	14.88
43	GA-674-0301-G-SS-2065	C920076	06/30/94	22,573.23
44	674-G-00-00-00072-00	C000162	10/15/01	17,274.37
45	GA-674-0301-G-SS-1010	C930065	10/30/95	1,097.96
46	CO-674-0303-C-00-6088	C000034	05/31/02	39,797.40
47	GA-674-0302-G-SS-4090	C950122	06/30/96	9,710.49
48	GA-674-0303-G-SS-4110	C960161	03/30/98	17,117.83
49	CA-674-0315-A-00-7035	C960292	07/06/01	4,790.32
50	PSC-674-S-00-00-00011	C000067	05/01/02	2,391.25
51(a)	CO-674-0318-C-00-6091	C980151	09/30/01	42,498.00
51(b)	CO-674-0318-C-00-6091	C100096	09/30/01	19,005.91
51(c)	CO-674-0318-C-00-6091	C990106	01/31/00	3,463.00
51(d)	CO-674-0318-C-00-6091	C990091	09/30/01	131.02
51(e)	CO-674-0318-C-00-6091	C970347	02/07/00	0.90
51(f)	CO-674-0318-C-00-6091	C980173	12/31/98	0.76
52	GA-674-0301-G-SS-3016	C950255	05/31/97	2,248.22

53	GA-674-0303-G-SS-5027	C950206	06/30/96	18,717.25
54	GA-674-0305-G-SS-2095	B920370	02/28/95	7,728.10
55	IAA-674-0321-P-00-7019	C000172	09/30/00	19,449.00
56	CO-674-0303-C-00-6093	C970131	12/31/99	450.00
Total				**$968,367.52**

Source: USAID/South Africa's Mission Accounting and Control System

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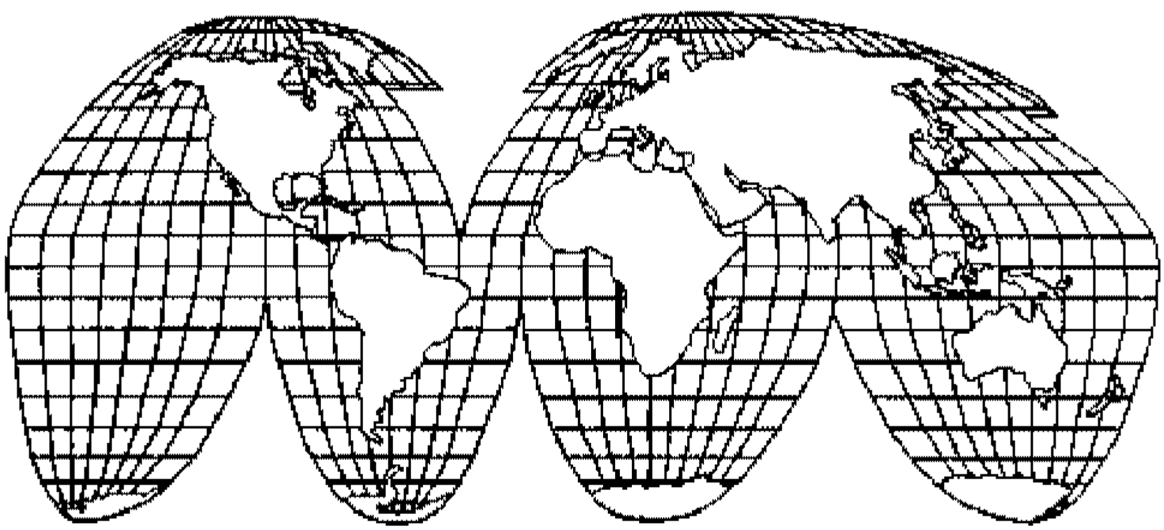
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID-Financed Basic Education Program in Benin

7-680-02-005-P

September 13, 2002



RIG/Dakar

OFFICE OF INSPECTOR GENERAL

RIG/Dakar

September 13, 2002

MEMORANDUM

FOR: Harry Lightfoot, USAID/Benin Director

FROM: Lee Jewell III, RIG/Dakar /s/

SUBJECT: Audit of USAID-Financed Basic Education Program in Benin (Report No. 7-680-02-005-P)

This report presents the results of our Audit of USAID-Financed Basic Education Program in Benin. In finalizing this report, we considered management's comments on our draft report and included them in Appendix II of the final report.

The report contains six recommendations. Based on appropriate action taken by the Mission, management decisions have been reached, and all recommendations are considered closed upon issuance of this report. No further action is required of the Mission.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Table of Contents

Summary of Results

In 1991, the Benin education system was in total collapse characterized by low enrollment rates, lack of qualified teachers, lack of appropriate teaching materials and other problems. In conjunction with the Ministry of Education, grantees, and contractors, USAID/Benin developed the Basic Education Program (BEP) as its strategic objective no. 1, to address this problem. To measure progress, USAID/Benin has established four intermediate results, namely 1) improved pedagogical system, 2) increased girls' enrollment in targeted areas, 3) improved environment for stakeholders, and 4) improved management of the education system. (See page 4.)

The objectives of the audit were to determine 1) whether the BEP was meeting its intended objectives and 2) if selected recipients were complying with the terms of their agreements. Two recipients were judgmentally selected based on the dollar magnitude of their contracts, the overall impact on the BEP, and the time-frame of program maturity and future relevance. (See pages 13 through 15.)

In answer to audit objective number one, for the two activities and associated recipients that were selected for review, the BEP was making substantial progress towards meeting its intended objectives. (See page 5.)

However, with regard to the second audit objective, two instances of non-compliance with implementing partners were found. In the case of the Primary Education Non-governmental Organization Project, the recipient, World Education, did not report achieved output data in a manner consistent with the description of the proposed outputs per the grant agreement. We recommended that USAID/Benin develop an agreed-upon format and set up procedures to ensure consistent reporting of the recipient's quarterly performance reports. In another case, the Children's Learning Equity Foundation II, the recipient, The Mitchell Group (TMG), did not prepare and submit its quarterly performance reports in a timely manner. We recommended that USAID/Benin develop a plan of action that notifies both the recipients and the Mission Director when instances of non-compliance occur. We also recommended that such plan of action results in the Mission Director requesting that the recipient take immediate corrective action. Conversely, although not a part of our second objective but nevertheless a compliance issue, we found that USAID/Benin did not submit Contractor Performance Evaluation Reports to TMG on an interim basis as required. We recommended that USAID/Benin develop an internal control procedure to ensure that it submits the required performance evaluation reports to the contractor in a timely manner. (See pages 5 through 10.)

Not directly related to the audit objectives, but nevertheless indicative of a weakness in internal control, the audit revealed that informal commitments totaling $334,000 were made by the Mission. We recommended that USAID/Benin establish procedures to use the USAID standard miscellaneous obligation form and train Mission employees on informal commitments. (See pages 10 & 11.)

Background

According to USAID reports, in 1991, the Benin education system was in total collapse, characterized by low enrollment rates, especially of girls, lack of qualified teachers, lack of a sound initial and in-service teacher training system, lack of appropriate teaching and learning materials and school infrastructure. In conjunction with the Ministry of Education, grantees, and contractors, USAID/Benin developed the Basic Education Program (BEP) as its strategic objective no. 1, to address this problem. This strategic objective was entitled "More Children Receive, on an Equitable Basis, a Basic Education That Prepares Them for Productive Roles in Society." To measure progress, USAID/Benin has established four intermediate results, namely, 1) improved pedagogical system, 2) increased girls' enrollment in targeted areas, 3) improved environment for stakeholders, and 4) improved management of the education system (in the context of decentralization).

In its March 2000 annual report, USAID/Benin reported that its basic education program was meeting expectations with significant improvement in access and quality of educational materials and instruction. It reported seeing important trends in improved quality of teaching, the quality and availability of improved textbooks and workbooks, and the active participation of pupils in the classroom. For example, the overall reported primary school gross enrollment rate was increased from 56 percent in 1991 to 81 percent in 2000. However, while girls' enrollment rates had increased, the gap between girls and boys continued to remain high. In 2000, the ratio of girls to boys in primary schools nationwide was approximately 0.7 to 1. While the Ministry of Education is aware of these gaps, it has been slow to develop an effective response because it has been a highly centralized organization. Furthermore, lack of school infrastructures and inadequate number of properly trained primary schoolteachers are constraints faced by the Ministry. The Mission also cited lack of coordination among donors and low absorptive capacity of funds as future challenges.

The audit covered two major BEP projects. The first was The Mitchell Group's "Children's Learning Equity Foundation II" (CLEF II) program. This program received an initial award of $8,199,051 on June 16, 1998. The contract expired on July 31, 2001 with a total contract amount of $11,169,442. The objective of the CLEF II project was to support the four intermediate results mentioned above.

The second project was World Education's Primary Education Non-governmental Organizations Project Phase II. The grant agreement required World Education to set up and train parent-teacher associations to develop grass roots involvement by parents in primary education. The grant for this project covered a five-year performance period beginning June 30, 1998 and ending June 29, 2003 with total life of project funding totaling $10,097,190. USAID appropriated funding was $5.7 million for each year for fiscal year 2000 and for fiscal year 2001.

Audit Objectives

As part of its Fiscal Year 2002 Audit Plan, the Regional Inspector General, Dakar (RIG/Dakar) designed this audit to answer the following objectives:

1) **Is USAID/Benin's Basic Education Program meeting its intended objectives?**
2) **Are selected recipients in the program complying with the terms of their agreements?**

Appendix I contains a complete discussion of the scope and methodology of the audit.

Audit Findings

Is USAID/Benin's Basic Education Program meeting its intended objectives?

For the two activities and associated recipients selected for review, it was determined that USAID/Benin's Basic Education Program (BEP) is making substantial progress in meeting its intended objectives.

For example, concerning the Children's Learning Equity Foundation II (CLEF II) project, the Mitchell Group (TMG) had many accomplishments such as the development and printing of textbooks, the establishment of the girls' equity network, the improvement of financial procedures at the Benin Ministry of Education. TMG also contributed to the establishment of the national forum to facilitate decentralization.

TMG was awarded the initial $8,199,051 CLEF II contract on June 16, 1998 with an effective date of August 1, 1998. The contract was modified eight times; the final Contractor Performance Report indicated that the contract expired on July 31, 2001 with a total contract amount of $11,169,442. The CLEF II project supported the following four intermediate results (IR) associated with strategic objective 1 (SO1):

- IR 1: Improved pedagogical system,
- IR 2: Increased girls' enrollment in targeted areas,
- IR 3: Improved environment for stakeholders, and
- IR 4: Improved management of the education system (in the context of decentralization).

Major requirements of the CLEF II project included the development of curricula and textbooks to accomplish the goals of IR 1, establishment of the "Girls' Network" to support IR 2, decentralization projects to promote IR 3, and improvements in the educative financial management system to achieve IR 4.

Consistent with the above IRs, major accomplishments of the CLEF II project included:

- New curricula, French and Mathematics books, and teacher guides developed and printed (up to Grade 4).
- Grass roots activities implemented a network to promote equity and girls' participation set up, and a system to monitor equity developed.
- Financial procedures at the Ministry of Education evaluated, improved and training conducted to ensure the use of new procedures.
- Ministry of Primary and Secondary Education's information management system improved and assistance provided in setting up a national forum to decentralize operations to the regional and local administrative levels.

Concerning the Primary Education NGO Project (PENGOP) Phase II, World Education (WE) had made significant progress in setting up the parents association network (APEs).

The grant agreement required WE to set up and train parent-teacher associations, so as to develop grass roots involvement by parents in order to promote primary education agenda. WE in turn recruited and worked with local non-governmental organizations (NGOs) in accomplishing the milestone requirements. Major accomplishment of the PENGOP II project included the strengthening of:

- The functional capacity of Parent Associations.
- The functional capacity of federations of Parent Associations.
- The participation of Parent Associations in the primary school system.

The grant was effective September 12, 1997 and covered a five-year performance period beginning June 30, 1998 and ending June 29, 2003. The estimated amount of the award was $9,126,000, with WE cost sharing being $971,190, yielding a total program amount of $10,097,190 for PENGOP Phase II. To accomplish the goals of the grant, WE directly supported USAID/Benin's Strategic Objective 1, "*More Children Receive a Quality Basic Education on an Equitable Basis,*" particularly, Intermediate Result #3 (IR 3), "*Improved Environment for Stakeholders,*" which calls for increased parent-teacher associations' involvement in schools in many different dimensions.

Are selected recipients in the program complying with the terms of their agreements?

Both TMG and WE complied with most aspects of their agreements in assisting USAID/Benin to achieve its BEP objectives as described under audit objective number one above, of which several examples are given and relevant also under our second audit objective. However, the selected recipients tested did not comply with all the terms of their agreement. Related, but not a part of our objective, USAID/Benin also failed to comply with one of the terms of the agreement.

In PENGOP Phase II, WE's quarterly performance reports did not report achieved output data in a manner consistent with the description of the proposed outputs per the grant agreement. In a second project, the CLEF II, TMG did not prepare and submit its quarterly performance reports in a timely manner. Conversely, USAID/Benin did not submit Contractor Performance Evaluation Reports to TMG on an interim basis as required. These findings are further discussed below.

Agreed-to Outputs Not Consistently
<u>Reported to Permit Progress Measurement</u>

WE did not consistently report (from quarter-to-quarter) the required and agreed-upon output information on program performance. Of the 14 agreed-upon targeted outputs, WE consistently and directly reported on only six, which is equivalent to 43 percent.

The grant agreement required WE to collect relevant BEP statistical data and to report on 14 major outputs as indicators in order to determine whether USAID/Benin was meeting its BEP objective with regard to the PENGOP Phase II project.

In accordance with the grant agreement, sub-section 1.5.2, "Monitoring and reporting program performance," the grantee is required to submit quarterly project progress reports and annual "non-competing continuation applications" to the Mission's Basic Education Team (BET). Furthermore, the agreement stipulates that the recipient shall, in collaboration with USAID/Benin, identify an appropriate list of indicators to assess program progress. Reporting on these indicators shall be included in the quarterly progress performance report.

WE revised its operational focus from quarter to quarter, mindful of its overall goal of helping to create and train the parent-teacher associations, but did not feel bound to measure progress based on its originally agreed-to outputs with the Mission. Although the Mission commented at times to WE about the latter's reporting format, the Mission did not insist on a corrective action by WE.

As a consequence of this deficiency in reporting, the Mission and WE did not know the progress being made by the latter in attaining all the targeted outputs.

For consistency with the grant agreement and to better measure progress in USAID/Benin's BEP, we make the following recommendation:

Recommendation No. 1: We recommend that USAID/Benin, in collaboration with World Education, develop an agreed-upon format and set up procedures to require consistent reporting of World Education's quarterly performance reports.

Quarterly Performance Reports
<u>Not Prepared and Submitted Timely</u>

TMG did not prepare and submit its quarterly performance reports to USAID/Benin in a timely manner.

According to the contract, number 624-C-00-98-00013-00 dated June 16, 1998, TMG was required to submit performance monitoring reports to USAID within 30 days of the calendar quarters ending on March 31, June 30, September 30, and December 31. A review of submitted reports and ensuing discussions with the Mission's basic education team (BET) members confirmed that these reports were consistently submitted late. In fact, when the current Mission's basic education team members joined the program in 1998, TMG had not submitted a performance monitoring report for over a year.

Assuming that the reason for the non-compliance was due to a misunderstanding of the requirement, the Mission's basic education team made a written request to TMG asking for regular submittals of the performance reports. As the CLEF II contract matured, there was improvement in the timeliness of submitted reports. However, even with these improvements, the majority of the reports were submitted more than 30 days later than the contract specified deadline of 30 days after the end of calendar quarters. Furthermore, while a current basic education team member made an initial request to have the performance monitoring reports submitted regularly, the Mission did not follow up and take action that would have resulted in compliance with the required 30-day reporting by TMG.

When members of the Mission's basic education team found some of the performance monitoring reports inaccurate and rather aggressive in the manner they represented progress in the period of performance, action taken by the Mission's basic education team to address the aggressive reporting by TMG may have added to the tardiness of the final draft of the performance monitoring report in some cases. Furthermore, due to the tardiness by TMG in submitting the reports, the Mission and TMG did not have updated accurate information to manage activities and to measure progress. This could have resulted in faulty decisions based on untimely and inaccurate information. Also, in certain cases, not having accurate information could lead to deviations from intended work scope and result in program cost escalations.

To encourage timely reporting by the recipient that would result in the Mission's use of up-to-date information and feedback in its ongoing project decision-making, we are making the following recommendations:

Recommendation No. 2: We recommend that USAID/Benin develop a plan of action that notifies both the recipient and Mission Director when instances of non-compliance occur with respect to reporting.

Recommendation No. 3: We recommend that USAID/Benin provide, in this plan of action, for the Mission Director to request that the recipient take immediate corrective action, when instances of non-compliance occur with respect to reporting.

Contractor Performance Evaluation
Reports Not Submitted as Required

USAID/Benin did not submit contractor performance evaluation reports to TMG.

According to the contract, number 624-C-00-98-00013-00, with TMG, dated June16, 1998 the contracting officer was to use information contained in the performance monitoring reports and input from the contracting officer's technical representative to evaluate contractor performance, for multi-year contracts, on an interim basis. Based on discussions with the Regional Contracting Officer (RCO) and the review of the procurement guidance in this area, *Best Practices for Collecting and Using Current and Past Performance Information*, the Contracting Officer, in this case, is required to conduct interim assessments at least every 12 months. Specifically, for contract actions exceeding $100,000, if the performance period exceeds 18 months, then the contracting officer should conduct interim assessments at least every 12 months. Furthermore, the guidance recommends that interim assessments be prepared and discussed with contractors at least every six months, sometimes more often depending on contractor performance problems.

A review of USAID/Benin prepared performance evaluation reports and ensuing discussions with procurement officials revealed that there was only one performance evaluation report completed and submitted to TMG during the three-year contract performance period (August 1, 1998 – July 31, 2001). That report was submitted to TMG on April 19, 2000, over 18 months into the contract period of performance. TMG provided a response to the evaluation, and it was finalized on May 9, 2000. According to the USAID/Benin procurement staff, a final end of contract evaluation was prepared, but it was not formally submitted to TMG for review.

Further evaluation and discussions with the procurement staff revealed that performance evaluation reports were initially prepared in Benin and were forwarded to the RCO in Dakar, Senegal for comments. Due to a communication breakdown between the acquisition specialist in Benin and the RCO in Dakar, certain reports were not finalized and submitted to TMG on an interim basis (yearly) as required.

As a result of not submitting performance evaluation reports to TMG as required, the contractor did not receive official and timely feedback on its performance. Although no specific negative impact occurred that was observable from this deficiency, tardiness in submission of a performance evaluation report could have impacted contract performance in the subsequent years of the multi-year contract. Furthermore, the performance evaluation report could have served as a vehicle to notify the contractor of ongoing issues associated with late performance monitoring report submittals. To provide the contractors with ample opportunity to use the Mission's feedback in its project performance strategy, we have the following recommendation:

> **Recommendation No. 4: We recommend that USAID/Benin develop an internal control procedure to mandate the submission of required performance evaluation reports to the contractor in a timely manner.**

Unrelated internal control finding

Informal commitments were made in implementing BEP and other USAID/Benin activities. This finding is further discussed below.

Informal Commitments Made in
<u>Implementing Some BEP and Other Activities</u>

While conducting the audit, the Mission Director revealed that various informal commitments were made by the USAID/Benin Basic Education Program Project Officer in implementing some basic education programs and other USAID/Benin activities. This was subsequently confirmed during interviews with the USAID/Benin Acting Controller and the USAID/Benin Executive Officer. These informal commitments totaled approximately $71,000, $46,000, and $217,000 in 1999, 2000, and 2001, respectively. According to USAID automated directives system (ADS) 303.5.14, "Informal commitments occur when an unauthorized USAID official acts in a manner which appears to a recipient or a potential recipient acting in good faith that USAID has committed to make a specific award, change the amount of the existing award, or revise an existing award budget, program description or any of the terms and conditions of the award." Furthermore, according to the same ADS, it is against USAID policy to enter into informal commitments.

The Mission had in place and used a form called the "Miscellaneous Commitment Document" which allowed the BEP project officer to pay for certain program activities directly. Due to an oversight in preparing a form that would have required the signature of the Executive Officer, the Mission spent funds on basic education program activities without having a properly signed authorizing document. As a result, funds were obligated and spent without proper authorization.

The Mission was aware of the problem before the audit and had already taken steps to correct it. However, in order to discourage entering into future informal commitments and to ensure a complete remedy for those that have occurred, we make the following recommendations.

Recommendation No. 5: We recommend that USAID/Benin establish procedures to use the USAID standard miscellaneous obligation form in obligating funds.

Recommendation No. 6: We recommend that USAID/Benin provide training to the Mission employees on informal commitments.

Management Comments and Our Evaluation

In response to the draft report, USAID/Benin agreed with all of the findings and recommendations in the draft audit report. Based on appropriate action taken by the Mission, all recommendations are considered closed upon the issuance of the final report.

Recommendation No. 1 requests that the Mission in collaboration with World Education develop an agreed-upon format and set up procedures to ensure consistent reporting of World Education's quarterly performance reports. The Mission concurred with this recommendation and developed a new reporting format that states all the outputs and indicators of the projects.

Recommendations No. 2 and 3 asks that the Mission develop a plan of action that notifies both the recipient and the Mission Director when instances of non-compliance occur and to request that the recipient take immediate corrective action. The Mission concurred with the recommendations and has developed a plan of action that will enable it to track submission of quarterly reports and encourage timely reporting. The Mission also agreed to notify cases of non-compliance through letters from the Mission Director to the recipients requesting that immediate corrective action be taken.

Recommendation No. 4 requests that the Mission develop an internal control procedure to ensure that it submits the required performance evaluation reports to the contractor in a timely manner. The Mission agreed to update its Mission Performance Monitoring System to incorporate the recommendation.

Recommendation No. 5 asks that the Mission establish procedures to use the USAID standard miscellaneous obligation form in obligating funds. The Mission concurred with the recommendation and has begun to use Agency form AID 7-7 (3-80), Miscellaneous Obligating Document.

Recommendation No. 6 requests that the Mission provide training to its employees on informal commitments. The Mission concurred with the recommendation and has held training sessions where various cognizant personnel provided training.

Scope and Methodology

Scope

The Regional Inspector General, Dakar conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was twofold: 1) to determine if USAID/Benin's Basic Education Program (BEP) was meeting its intended objectives, as measured by certain intermediate agreed-upon indicators and outputs with its implementing partners and 2) to determine if selected recipients were complying with the terms of their agreements.

To answer these objectives, our audit scope included USAID financed BEP activities funded with fiscal years 2000 and 2001 appropriations. We assessed management controls governing the identification, analysis, and ultimate disposition of funding as they related to selected sections of the Foreign Assistance Act of 1961.

Methodology

We then analyzed the Mission's internal control system, especially with regard to the funding arrangements, performance monitoring and measurement tools. We also analyzed the compliance and reporting requirements associated with the BEP and compared our results to the requirements found in USAID and relevant federal guidance. The Mission's performance monitoring control system was generally functioning as intended but because of general concerns regarding implementing partners' reporting methodology, we assessed control risk as medium.

In order to determine if USAID/Benin's BEP was meeting its intended objectives, and whether selected recipients were complying with the terms of their agreements, we decided to select a sample of recipients for detailed audit testing. Contracts and/or grants associated with all of the recipients were requested and reviewed in order to narrow the scope to the major and significant recipients. The criteria utilized to select the recipients and programs for review and testing were 1) dollar magnitude of the contract/project, 2) impact on overall BEP, and 3) time-frame of program maturity and future relevance.

Based on the above review and analysis, the Primary Education NGO Project (PENGOP) Phase II and Children's Learning Equity Foundation II (CLEF II) projects and their associated recipients were selected for review. The grantee for PENGOP Phase II was World Education and that for CLEF II was The Mitchell Group (TMG).

PENGOP Phase II and World Education

To fulfill our audit objective, we therefore proceeded to test compliance by World Education with the data collection and reporting requirements as well as USAID/Benin's Basic Education Team's (BET) project performance monitoring controls. This was accomplished, amongst other auditing procedures, through judgmentally selected reviews of (1) quarterly financial, performance and annual reports through fiscal year 2001, (2) Non-competing Continuation Applications and, (3) the statistical database of World Education. We also complemented these reviews with field visits to World Education offices and site visits to the schools and parent-teacher associations. Additionally, we reviewed reports of field visits and other performance monitoring procedures performed by the BET.

CLEF II and TMG

To determine if TMG had complied with the terms of the CLEF II agreement, milestone requirements from each of the intermediate results were randomly selected for further review and testing. Certain contract terms were also selected and tested to ensure that BET adequately monitored contractor performance during the three-year span of the CLEF II contract. In selecting contract terms for compliance testing, we chose contract terms pertaining to contractor performance. In particular, we emphasized performance reporting by TMG and contractor performance evaluation requirements by USAID/Benin.

In testing for achievement of milestone requirements, we relied on the following:

- review of BET documentation of monitoring activities,
- review of completed requirements such as textbooks and curricula,
- review of external data and documentation, and
- field observations and discussions with beneficiaries.

For those requirements that produced ascertainable end results such as textbooks and curricula, we observed their existence through reviewing manuscripts (curricula) and physically viewing textbooks. We ascertained the existence of textbooks through samples provided by the Mission, and more significantly, we were observed the use of these books and the newly developed curricula and pedagogy through our field visits to the Borgou region of Benin. In certain cases, we verified completion of requirements by reviewing statistics provided by the Ministry of Education; this included statistics on distribution of textbooks by region. In other cases, milestone requirements called for independent assessments by external parties. In these cases, we requested copies of the assessments from the Mission and reviewed them to ensure that the scope was adequately covered and that identified weaknesses were properly addressed by the Mission.

During our field visits to the Borgou region we observed the newly developed pedagogy for the primary schools implemented in all of the schools we visited. In most cases, the CLEF II funded French and Mathematics books were provided to students at the prescribed ratio of two students per book and one student per each workbook. However, in several cases, the books were not adequately covered with book-covers and showed premature wear and tear.

Photograph of students at the Biro School in Perere (Borgou region) using the textbooks and pedagogy developed by the CLEF II project.

In assessing significance, we used a materiality threshold of five-percent noncompliance/non-achievement rate for the overall sample tested against the performance criteria in each audit objective.

Management Comments:

U.S. Agency For International Development

August 21, 2002

ACTION MEMORANDUM

TO: Henry Barrett, RIG/Dakar

FROM: Harry M. Lightfoot, Director - USAID/Benin /s/

SUBJECT: Draft Audit Report Number 7-680-02-00X-P of USAID-Financed Basic Education Program in Benin

As requested, the Mission has reviewed RIG's draft audit report on USAID-Financed Basic Education Program in Benin. Please find below our response to the report's recommendations.

Recommendation No.1: "We recommend that USAID/Benin, in collaboration with World Education, develop an agreed-upon format and set up procedures to ensure consistent reporting of World Education's quarterly performance reports."

Action taken: In order to address the recommendation No.1, the Basic Education Team, in collaboration with World Education, developed a new reporting format entitled "Outputs Tracking Table" stating all the outputs and indicators of the projects. Partners report on progress pertaining to each output using this table. The table was shared with the other USAID-funded education partners and with other USAID/Benin Strategic Objective and Special Objective (SO/SpO) Teams that adopted it. [redacted]

<u>Recommendation No.2</u>: "We recommend that USAID/Benin develop a plan of action that notifies both the recipient and Mission Director when instances of non-compliance occur."

<u>Action taken</u>: See Mission Action Plan under Recommendation No.3.

<u>Recommendation No.3</u>: "We recommend that USAID/Benin provide, in this plan of action, for the Mission Director to request that the recipient take immediate corrective action, when instances of non-compliance occur."

<u>Mission Action Plan</u>: The Basic Education Team developed, for each recipient, a performance report monitoring chart that enables it to keep track of the submission of quarterly reports and encourage timely reporting. To comply with the audit recommendation, the Mission Director sent letters to recipients that did not submit their quarterly reports in a timely manner.

In addition to that, USAID/Benin will include in its Performance Monitoring System a paragraph urging SO/SpO Teams to notify cases of non-compliance through letters from the Mission Director to the recipients requesting that immediate corrective action be taken. The Mission will furthermore monitor contractor and grantee compliance with reporting requirements as part of its semi-annual portfolio review.

[redacted]

<u>Recommendation No.4</u>: "We recommend that USAID/Benin develop an internal control procedure to ensure that it submits the required performance evaluation reports to the contractor in a timely manner."

<u>Mission Action Plan</u>: USAID/Benin would like to point out that the Basic Education Team (BET) and TMG met on a regular basis to assess progress towards the achievement of the contract milestones and to discuss and address implementation issues. During these

meetings, the BET provided feedback on the project performance.

BET prepared the required performance reports that were submitted to the Mission Office of Procurement (OP) for transmission to TMG through the Regional Contracting Officer (RCO). According to the discussion OP had with the auditors, some of these reports were not submitted to TMG on an interim basis due to communication problems between the RCO and OP. This is a communication issue, not a non-compliance one.

USAID/Benin will include in its Mission Performance Monitoring System a paragraph dealing with the submission of performance evaluation reports to the contractors in a timely manner.

USAID/Benin will then monitor its compliance with this requirement during semi-annual portfolio reviews.

Recommendation No.5: "We recommend that USAID/Benin establish procedures to use the USAID standard miscellaneous obligation form in obligating funds."

Action taken: On December 14, 2001, the Mission issued a notice discontinuing the issuance of Miscellaneous Commitment Document (MCD) and replaced it with the Agency form AID 7-7 (3-80) Miscellaneous Obligating Document (MOD). This policy has been implemented and the use of a MCD is no longer a practice in this Mission [redacted]

Recommendation No.6: "We recommend that USAID/Benin provide training to the Mission employees on informal commitments"

Action taken: On December 13, 2001, the Regional Contracting Officer (RCO), Lawrence Bogus conducted training in the Mission on informal commitments. The EXO followed up on December 18, 2001 with a Memorandum disseminating an Administrative Notice from the Embassy fully discussing the subject of "Unauthorized Commitments". The EXO also requested that a training session be held during the visit of Mr. Alan Bellefeuille, OP/E. One hour of training by lecture and panel discussion was performed on June 14, 2002 by the RCO, the EXO, the TDY Acting Controller Donna Brazier, and Alan Bellefeuille. Attendance was mandatory for personnel from the technical offices, the Executive Office and the Office of Financial Management. The training session covered aspects of procurement authority by warrant and by position, other inherent authorities by positions, recurring obligations, informal commitments and the discontinuance of MCDs. [redacted]

Conclusion:

USAID/Benin concurs with the findings and recommendations in the draft audit report.

USAID/Benin appreciates the RIG's assistance, and believes that the implementation of the above action plans will further enhance USAID-financed development programs in Benin.

[redacted]

Deleted items - Relate to matter not included in the final report.

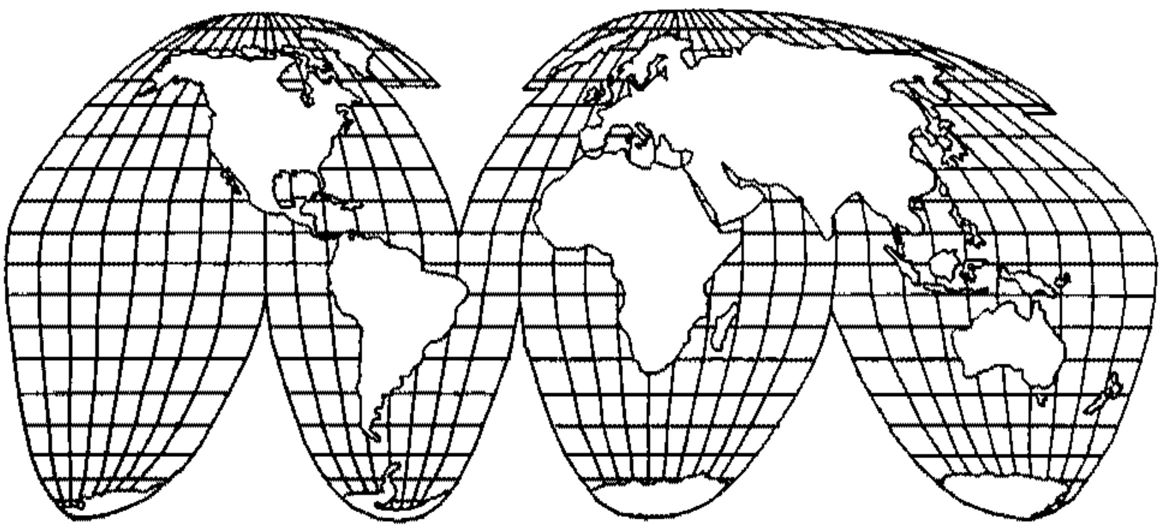
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Mali's Self-Help Program

7-688-03-001-P

February 28, 2003



Dakar, Senegal

February 28, 2003

MEMORANDUM

FOR: Pamela White, Director, USAID/Mali

FROM: Lee Jewell III, RIG/Dakar /s/

SUBJECT: Audit of USAID/Mali's Self-Help Program (Report No. 7-688-03-001-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included this response as Appendix II.

In your response to our draft report, you concurred with each of the seven recommendations and the potential monetary savings of $72,848. Based on appropriate action taken by the Mission, management decisions have been reached, and recommendations 1, 3, 4, 5, 6, and 7 are considered closed upon issuance of this report. Please coordinate final action for recommendation no. 2 with the USAID Office of Management Planning and Innovation, Management Innovation and Control Division (M/MPI/MIC). In accordance with USAID guidance, M/MPI/MIC is responsible for determining when final action has occurred.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

The Africa Special Self Help (SSH) Program is funded through the Regional African Bureau with the Department of State acting as the managing unit. The program is designed to provide small grants (generally $2,000 or less) to fund SSH activities that will have an immediate impact. The direct responsibility of the program is with the Ambassador, who has the final authority in the selection and approval of SSH projects. The projects are funded through USAID allotments, and the official accounting for these funds is located in the USAID field accounting stations. The separation of management authority and financial accountability has presented challenges for USAID/Mali. (See pages 6 and 7.)

The objective of this audit was to determine if USAID/Mali administered, obligated, and deobligated the funding of its SSH activities in accordance with USAID guidelines. (See page 7.)

The audit found that in general, USAID/Mali administered, obligated, and deobligated the funding of its SSH activities in accordance with USAID guidelines; however, annual section 1311 reviews were not always performed, advances were not supported, and some activity agreements did not include all required information. The Mission has procedures in place for obligating funds and processing vouchers in a timely and efficient manner. Controls are in place for the disbursement of funds, and site visits were performed by the Controller to determine the status of several projects. (See page 7.)

However, as previously stated, several issues were noted that need to be addressed by the Mission. Annual reviews of all recorded unliquidated obligations are required per USAID guidance, but the Mission had not performed a review since April of 2000. We recommend that the Controller's office perform an annual review for 2002. In addition, we recommend that USAID/Mali deobligate or justify amounts relating to outstanding advances and currency fluctuations from previous years totaling $57,457. (See pages 8 through 10.)

Another issue noted was the lack of pro forma invoices to support full advances as required per USAID guidance. We recommend that the Mission follow USAID guidance on utilizing other methods of payments as well as requiring pro forma invoices when a full advance is the most appropriate form of payment. In addition, we recommend that the Mission determine the recoverability of the advances totaling $15,391 for projects that do not exist. (See pages 10 and 11.)

A third issue noted was that USAID guidance identifies specific information and terms required on SSH documents, but the agreements for FY 2002 did not incorporate all required information. We recommend that the Mission in coordination with the SSH Coordinator incorporate required information into future agreements. (See pages 12 and 13.)

USAID/Mali concurred with all of the findings contained in this report, and management decisions have been reached on all recommendations. Based on appropriate action taken, final action has been taken on recommendations no. 1, 3, 4, 5, 6, and 7. (See pages 13 and 14.)

Background

The Africa Special Self Help (SSH) Program is funded through USAID's Africa Bureau with the Department of State acting as the managing unit. The program is designed to provide small grants (generally $2,000 or less) to fund SSH activities that will have an immediate impact as well as advance U.S. interests. It is a way to provide limited assistance directly to local communities rather than government-to-government assistance; the SSH programs allow for a quick response without regard to the bilateral assistance programs. Some examples of SSH projects include gardening projects, the building of wells for potable water, and water conduit construction. Below is a picture of a SSH funded water conduit project.

Picture of a water conduit constructed with SSH funds in the Koulikoro region of Mali on October 22, 2002.

The selection of projects is made by a team from the U.S. Embassy, but the Ambassador has the final authority in the approval of SSH projects. Usually, the Ambassador delegates the day-to-day management to a staff member in the Embassy. In the case of the SSH program in Mali, the Consular Officer was responsible for the day-to-day management. He was assisted by a full-time SSH coordinator who was hired about a year ago at the time of the audit.

SSH projects are funded through USAID allotments, and the official accounting for these funds is performed by the USAID field accounting stations. USAID is responsible for the obligation, deobligation, and financial administration of the funds. USAID/Mali is the accounting station for five SSH programs: Mali, Niger, Burkina Faso, Chad, and Cote d'Ivoire. The budget for the SSH program in Mali was $81,000 in fiscal year (FY) 2000 and an estimated $76,000 in FY 2001. The Regional Inspector General, Dakar audited the Mali SSH program for FY 2001.

Having management responsibility at the Embassy and financial accountability at USAID has presented challenges for USAID/Mali management. USAID/Mali has limited authority over program implementation and monitoring, but yet the Mission is still accountable for the outstanding obligations and commitments. USAID/Mali has proposed to include a person from the Financial Management Office on the SSH committee to provide financial expertise early on in the grantee selection process.

Audit Objective

The Regional Inspector General, Dakar (RIG/Dakar) designed this audit to answer the following objective:

Did USAID/Mali administer, obligate, and deobligate the funding of its self-help activities in accordance with USAID guidelines?

The audit was included as a revision to the annual plan. Appendix I contains a complete discussion of the scope and methodology of the audit.

Audit Findings

Did USAID/Mali administer, obligate, and deobligate the funding of its self-help activities in accordance with USAID guidelines?

USAID/Mali administered, obligated, and deobligated the funding of its self-help activities in accordance with USAID guidelines; however, annual section1311 reviews were not always performed, some advances were not supported, and some activity agreements did not include all required information. The Mission had procedures in place for obligating funds and processing vouchers in a timely and efficient manner. Controls, including presenting an identification card and organization stamp, were in place for the disbursement of funds. The Mission did deobligate funds appropriately as some projects closed and the advances were liquidated. In addition, site visits were performed by the Controller to determine the status of several projects.

Several issues were noted, as stated above, that need to be addressed by the Mission. Annual Section 1311 reviews of all unliquidated obligations to determine validity were not performed as required. Even though quarterly reports were sent to the Embassy on a regular basis, no follow-up was performed when the Embassy did not respond to determine the validity of the unliquidated obligations and outstanding advances. In addition, the Mission was not requiring pro forma invoices to support payment vouchers of full advances as required in the Special Self-Help (SSH) Guide (the Guide), guidance USAID uses for managing SSH programs. Finally, the obligating documents did not contain all required information.

Annual Section 1311
<u>Reviews Were Not Performed</u>

Section 1311 of the Supplemental Appropriations Act of 1955 (the Act) requires agencies to perform annual reviews of all recorded outstanding obligations. USAID/Mali had not performed a review of the unliquidated obligations associated with the SSH program since April of 2000, resulting in unliquidated obligations of $153,399 as of October 25, 2002, of which $57,457 could have been deobligated during annual reviews. Among Mission staff and management, there was a misunderstanding as to who was responsible for the reviews. As a result, funds for SSH programs that could have been deobligated and possibly reprogrammed remained idle.

Section 1311 of the Act states that an intensive review of all recorded unliquidated obligations/commitments must be completed on a yearly basis. These annual reviews must be thoroughly documented with complete working papers for each individual obligation or commitment account. Any reviewer of the working papers should be able to conclude that a careful review of each unliquidated obligation and commitment was conducted. Also, per Automated Directives System (ADS) 621, obligation managers must continuously review the status of obligated funds and request deobligations whenever funds are found to be in excess of that needed to accomplish activity objectives. Furthermore, the Guide states that the Controller's Office, in conjunction with the SSH coordinator, should perform the annual 1311 review.

During the audit, it was determined that a Section 1311 review had not been performed since April of 2000. Moreover, the review done in 2000 did not address unliquidated obligations going as far back as 1995. Per the Mission Accounting and Control System (MACS) report P07A *Comprehensive Pipeline Report by Project* as of October 25, 2002, the unliquidated obligating balance was $153,399. Of this amount, $57,457 could have possibly been deobligated had a Section 1311 review been performed. This amount is the sum of the unliquidated balances for projects from 1995 to 2000 plus the result of currency fluctuation in fiscal year (FY) 2001. The outstanding advances for FY 2001 are not included because a project has 18 months to complete, and therefore, the projects may be on-going. A breakdown of the total unliquidated balance is shown below.

Unliquidated Obligations Breakdown (in dollars)

Summary		
Unliquidated balances for projects from 1995 to 2001		$79,952
Projects for FY 2002		73,447
Total Unliquidated Balance as of October 25, 2002		**$153,399**
Detailed Breakdown of Unliquidated Balances from 1995 to 2001		
FY 2001		
Unliquidated balance		$24,401
Amount represents currency fluctuations [1]	1,906	
10 Projects with outstanding advances [2]	22,495	
FY 2000		
Unliquidated balance		$18,396
Amount represents currency fluctuations[1]	9,124	
5 projects with outstanding advances	9,272	
FY 1995 to 1999		
Unliquidated balance		$37,155
Outstanding advances	24,010	
Other unliquidated obligations	13,145	
Total		**$79,952**

[1] The currency fluctuations resulted from a change in the exchange rate on the day of the obligation and the day the payment voucher was completed.

[2] Five of the 10 projects do not exist, which total $15,391 in outstanding advances. This amount represents 68 percent of the total outstanding advances for FY 2001.

Per discussion with USAID management and staff, the reviews were not performed due to a misunderstanding as to whose responsibility it was to perform the reviews. Regarding the April 2000 review performed, USAID management stated that if documentation was not received stating that the project was closed, the balance stayed on the books. The Mission did not initiate any contact with the Embassy to verify the status of the projects.

Part of the unliquidated obligation balance consists of currency fluctuations and outstanding advances. The currency fluctuations resulted from the Mission not comparing the obligating documents to the payment vouchers to determine differences in exchange rates. The outstanding advances as well as other unliquidated obligations from 1995 to 2000 have not been reviewed as appropriate given that the projects are supposed to be of an immediate nature not expanding past 12 months.

By not performing the reviews, the SSH program funds have been idle when they could have been deobligated and reprogrammed for other valid purposes. Had the reviews been performed in conjunction with Embassy staff on a timely basis in the year that the funds were obligated, the excess funding could have been used to fund other projects. The following are recommendations to address the problem noted.

> **Recommendation No. 1: We recommend that the Controller's Office perform a Section 1311 review of the Mali self-help program for fiscal year 2002 to obtain justification for retaining the unliquidated obligations or show the need to deobligate the funds.**

> **Recommendation No. 2: We recommend that USAID/Mali in coordination with the U.S. Embassy/Bamako, deobligate, collect, or justify unliquidated obligations totaling $55,551 ($18,396 for fiscal year 2000 and $37,155 for fiscal years 1995 to 1999).**

> **Recommendation No. 3: We recommend that USAID/Mali in coordination with the U.S. Embassy/Bamako, deobligate or justify unliquidated obligations resulting from currency fluctuations, which total $1,906 for fiscal year 2001.**

Payments of Full Advances Were Not Supported as Required

Per USAID guidance, pro forma invoices should be required from grantees before advancing the full amount of a SSH award. For FY 2001, we noted that 19 of the 20 projects received full advances without pro forma invoices as supporting documentation. Pro forma invoices were not required due to misinterpretation of the requirement. The lack of pro forma invoices increased the risk of noncompliance.

Per the Guide, advances given in full to the grantee are the least desirable payment method as the most risk is involved. The Guide states that a definite action plan with pro forma invoices should be required from intended beneficiaries in order to obtain a full advance.

The review of the FY 2001 voucher files disclosed that of the 20 projects, 19 received full advances. Of these 19 projects, no pro forma invoices were in the voucher files as support of the advance payment. For FY 2000 files, it was noted that six of the 23 files reviewed did not have supporting pro forma invoices.

Per discussion with USAID management and voucher examiners, no pro forma invoices were required to issue a payment if the payment voucher and the Checklist for Administrative Approval of Vouchers were properly completed. Due to misinterpretation of the guidelines, management misunderstood the pro forma requirement.

Issuing advances in full increases the risk associated with the projects. Five project awards in FY 2001 gave full advances totaling $15,391 to what turned out to be nonexistent projects, and the money had not been recovered. After becoming aware of a possible problem with these projects, the USAID Controller as well as the SSH Coordinator performed a site visit to determine the status of the projects. Per discussions with the local people, it was determined that the projects were nonexistent and the man who received the advances had left town. Mission management notified the Regional Inspector General/Dakar, which in turn notified the Office of Inspector General/Investigation. The recommendations below address the issue of the lack of pro forma invoices.

Recommendation No. 4: We recommend that USAID/Mali in coordination with the U.S. Embassy/Bamako develop procedures that utilize other methods of payment when possible such as payments made directly to the supplier and giving only partial advances until supporting documentation is received.

Recommendation No. 5: We recommend that USAID/Mali develop procedures that require pro forma invoices to support requests for full advances to self-help grantees when a full advance is the most appropriate method of payment.

Recommendation No. 6: We recommend that USAID/Mali, in coordination with the U.S. Embassy/Bamako, determine the recoverability of the advances totaling $15,391 for the five nonexistent projects, and depending on the determination, either issue a bill for collection or take appropriate action to initiate the write-off process.

Activity Agreements Do Not
<u>Include All Required Information</u>

USAID guidance identifies specific information and terms required on SSH documents. Of the 20 agreements we reviewed, none of the 20 complied entirely with USAID guidance. Due to the ambiguity of an example in the Guide, Embassy and USAID staffs were not aware of the requirement. As a result, critical information necessary for proper financial management of the Mission's SSH activities was not available to USAID management.

The Guide identifies the Individual Activity Agreement as the primary instrument through which SSH funds may be obligated and committed to a SSH activity. This document is defined as an agreement between the U.S. Government and a local community to undertake a specific activity. Furthermore, this document is described as the basic document underlying implementation of the program and must be executed for each SSH activity. The Guide states various information that must be specified on the activity agreement, including the following:

1. The name of the official or organization which will monitor the activity,
2. The date on which implementation is expected to begin,
3. The number of beneficiaries, and
4. The estimated date of completion.

For FY 2002 agreements, the SSH coordinator used a different format from the previous years. We examined all FY 2002 agreements (20 agreements in total) and noted that none of the agreements specifically stated the monitoring official, as was done in 2001 contracts. In addition, the contracts did not state the expected date of implementation or the estimated date of completion. We also noted that 10 of the 20 contracts did not provide the number of beneficiaries.

Per discussion with USAID management as well as the SSH coordinator, the lack of required information was due to unclear presentation in the Guide. The Guide presents a sample agreement that does not include all of the required information as stated in the narrative part of the Guide. The coordinator used the sample when creating the agreements but did not add the information stated in the narrative section. In addition, according to Mission officials, because the agreements were originated close to the fiscal year end, there was a rush to get them approved and funded. Therefore, they were not reviewed thoroughly.

As a result of the lack of required information, critical information for proper financial management of the Mission's SSH activities was not available to USAID management. Management was not able to determine who the responsible party was, when the project should have started, or when the project should have finished. Such information would also aid in performing Section

1311 reviews of unliquidated obligations. The following recommendation has been made to address the incomplete agreements.

> **Recommendation No. 7: We recommend that USAID/Mali coordinate with the Embassy's self-help coordinator to develop procedures that incorporate all required information into future self-help activity agreements.**

Management Comments and Our Evaluation

In response to the draft report, USAID/Mali agreed with all of the findings and recommendations made in the draft audit report. Based on action taken by the Mission, six of the seven recommendations are considered closed upon the issuance of the final report (1, 3, 4, 5, 6, and 7). The remaining recommendation, Recommendation No. 2, is considered to have a management decision.

Recommendation No. 1 recommends that the Mission perform a Section 1311 review of the Mali self-help program for fiscal year 2002. The mission concurred with this recommendation and performed such a review. This recommendation is considered closed.

Recommendation No. 2 states that the Mission should deobligate, collect, or justify unliquidated obligations for fiscal years 1995 to 2000. The Mission was able to deobligate part of this amount resulting from amounts never requested in payments. The Mission is currently working with the Embassy Special Self-Help Coordinator on the remaining balance.

Recommendation No. 3 recommends the deobligation or justification of unliquidated obligations resulting from currency fluctuation for fiscal year 2001. The Mission concurred with this recommendation and has deobligated the amount. This recommendation is considered closed.

Recommendations No. 4 and 5 states that the Mission should develop procedures for utilizing methods other than giving a full advance when making a payment. If a full advance is the most appropriate method, pro forma invoices should be required. The mission concurred with these recommendations and has issued a memo incorporating new procedures into the accounting function. These recommendations are considered closed.

Recommendation No. 6 recommends the Mission to determine the recoverability of advances for five non-existing projects and either issue a bill of collection or initiate the write-off process. The Mission determined the recoverability to be highly unlikely and wrote off the advances based on an action memo, which was approved by the Ambassador and signed by the USAID Mission Director. This recommendation is considered closed.

Recommendation No. 7 recommends the Mission to develop procedures requiring all required information be included in future self-help activity agreements. The Mission concurred with this recommendation and issued a memo incorporating new procedures into the accounting function. This recommendation is considered closed.

Scope and Methodology

Scope

The Regional Inspector General, Dakar conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID/Mali administered, obligated, and deobligated the funding of its SSH activities in accordance with USAID guidelines. The audit was conducted at USAID/Mali in Bamako from October 7-25, 2002. Site visits were performed in both the Segou region of Mali as well as the Koulikoro region.

To answer this objective, the audit scope primarily included obligations for special self-help (SSH) activities which had unliquidated balances at September 30, 2001 and as necessary, balances at September 30, 2000 and September 30, 2002. We assessed management controls governing the administration, obligation, and deobligation process, including the conduct of Section 1311 reviews relating to SSH activities. In addition, the scope of this audit included a limited review of the internal control structure associated with the identification of proposed projects, the project selection process, and the distribution of funding.

We examined all fiscal years 2000 and 2001 voucher files for SSH programs to review the obligating process. We reviewed all unliquidated obligations as of October 25, 2002, which totaled $153,399.

Methodology

While conducting fieldwork, we performed limited tests of compliance with USAID procedures related to the Mission's controls associated with these obligations. These controls and our review included the Mission's Section 1311 reviews and a review of obligating documents. In addition, we reviewed the controls over the approval process for advances as well as the liquidation of obligations associated with SSH activities.

Because we were notified before the audit of the possibility of problems existing in five of the SSH projects, no materiality threshold was set; everything was deemed material.

Each obligation was reviewed to determine whether it was valid in accordance with USAID regulations. We also reviewed fiscal years 2000 and 2001 unliquidated obligations to determine whether the balance resulted from currency fluctuations or other factors. In making these decisions, we examined the original amount obligated and compared it to the amount actually paid. The supporting documentation for the liquidation provided the relevant information on the difference between the original obligation and the liquidated amount.

In addition, our fieldwork included reviewing information contained in the Mission Accounting and Control System reports, documents maintained at both USAID/Mali and the American Embassy in Mali, and discussions and communications with appropriate Mission and Embassy staff.

During fieldwork, we noted that prior audit recommendations had been made regarding Section 1311 reviews in 1997. In 1999, verification and evaluation work was performed on the audit recommendations, which determined that final actions had generally been completed. No further action was required of the Mission at that time.

Management Comments:

USAID/Bamako
Office of Financial Management
MEMORANDUM

To:	**Lee Jewel III, RIG/Dakar**
CC:	**Vicky Huddleston, Ambassador**
	Daniel Stewart, AmEmbassy/Mali
From:	**Pam White, Director, USAID/Mali /s/**
Date:	**January 15, 2003**
Subject:	**RIG/Dakar's Draft Audit Report on USAID/Mali Self Help Program**

USAID/Mali would first like to express its gratitude for the time and effort the RIG/Dakar staff dedicated to this audit. It has been very useful in identifying certain weaknesses in the overall management of the SSH Program in Mali. We fully concur with the final audit findings and the seven recommendations.

However, we would like to emphasize that USAID only serves as the paying and accounting station and does not have direct management responsibility for this program. The U.S. Embassy receives and evaluates the grant proposals, selects the grantees, prepares and the grant agreements for the Ambassador's signature and administratively approves all payments. The Embassy is also responsible for obtaining adequate documentation to liquidate cash advances and for completing project close-out reports. The Special Self-Help Guide, issued by the State Department Bureau of African Affairs, provides a clear set of instructions and recommendations for effective execution of these program responsibilities.

Over the course of the last few months, OFM/Bamako has taken the following steps to address the recommendations before the issuance of the final audit report:

Recommendation No. 1 : We recommend that the Controller's Office perform Section 1311 reviews of the Mali Self-Help Program annually, which entails working with the Embassy Coordinator and comparing obligating documents with payment vouchers to determine currency fluctuations.

Action Taken: The Controller has again reviewed the requirement to conduct an annual Section 1311 review of all unliquidated obligations with all USAID accounting staff. The responsibility for the annual review of SSH obligations has been formally reassigned to the Supervisory Accountant, based on his experience and understanding of the procedure. The Supervisory Accountant has since completed a thorough Section 1311 review for this program as of 9/30/02. [redacted]

Deleted – Relates to matter not included in the final report.

We believe all necessary action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 1 accordingly.

Recommendation No. 2: We recommend that USAID/Mali, in coordination with the U. S. Embassy/Bamako, write-off or justify excess balances of $9,124 in 2000 and $1,906 in 2001 resulting from currency fluctuations.

Action Taken: We concur with RIG/Dakar's finding and have deobligated these amounts as of 12/31/02 via JV# 688-03-112 for $9,126.22 and JV# 688-03-113 for $1,905.95. [redacted]

Deleted – Relates to matter not included in the final report.

We believe all required action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 2 accordingly.

Recommendation No. 3: We recommend that USAID/Mali, in coordination with the U. S. Embassy/Mali, write-off, collect, or justify outstanding advances totaling $9,272 from 2000, as well as $37,155 in un-liquidated obligations regarding projects from 1995 to 1999, of which $24,010 presents outstanding advances.

Action Taken: A portion of the unliquidated obligations regarding projects from FY 1995 to FY 1999 represents amounts never requested in payments. We have therefore deobligated these unused obligated amounts as of 12/31/02 via JV# 688-03-111 for $13,145.11 [redacted].

Deleted – Relates to matter not included in the final report.

USAID/Mali has confirmed the U.S. Embassy SSH Coordinator has tried to locate all Malian grantees that have outstanding SSH advances and has asked those located to submit project expense documentation. These efforts have so far produced little in terms of concrete results. Only one advance of $1,686.41 for the period from 1995 to 2000 has been liquidated since 9/30/02; all others are still fully outstanding and unjustified.

USAID/Mali will continue to work with the Embassy SSH Coordinator to gather adequate expense documentation to liquidate these outstanding advances over the next six months. All advances not adequately justified and judged to be uncollectible will be written off by June 30, 2003.

Recommendation No. 4: We recommend that USAID/Mali in coordination with the U. S. Embassy/Bamako develop procedures that utilize other methods of payment when possible such as payments made directly to the supplier and giving only partial advances until supporting documentation is received.

Action Taken: The Controller has discussed these options with the Embassy SSH staff and they have agreed they will actively search for opportunities to apply this suggested approach for alternative payment methods. These payment options are also spelled out in the Special Self Help Guide, which the Embassy SSH Coordinator has agreed to refer to more frequently. Formal guidance was given to USAID OFM staff via OFM Notice 2003-01.

We believe all required action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 4 accordingly.

Recommendation 5: We recommend that USAID/Mali develop procedures that require pro forma invoices to support requests for full advances to Self-Help grantees when a full advance is the most appropriate method of payment.

Action Taken: This requirement is discussed in the Special Self-Help Guide. As such, the SSH Coordinator has now agreed to ensure, effective immediately, that all grantees will provide pro forma invoices with their respective advance requests. The Controller has instructed the USAID voucher examination staff to ensure that all SSH advance requests are supported with the pro forma invoices before processing any payments. Formal guidance was given to USAID OFM staff via OFM Notice 2003-01.

Since early November 2002, OFM/Bamako has been receiving advance requests from the grantees with the required pro forma invoices attached.

We believe all required action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 5 accordingly.

Recommendation No. 6: We recommend that USAID/Mali, in coordination with the U. S. Embassy/Bamako, determine the recoverability of the advances totaling $15,391 for the five non-existing projects; if the advances are determined to be unrecoverable, write-off as appropriate.

Action Taken: The SSH Coordinator and the USAID/Controller traveled to Timbuktu to verify the allegation [redacted] related to these five advances. [redacted] It is clear all five advances were received by one person, [redacted]. It is also clear none of the funds from these advances ever reached the intended grantees. [redacted] The U.S. Embassy will pursue all possible legal action against [redacted], if and when he can be located. However, it is highly unlikely these advances will ever be either partially of fully recovered. The cost of further efforts to collect these funds will mostly likely greatly exceed any potential recovery. Therefore, the USAID Controller has written off these advances via JV # 688-03-115 [redacted] and based on the action memo concurred by the Ambassador and signed by the USAID Mission Director [redacted].
Deleted Relates to matter not included in final report.

We believe all required action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 6 accordingly.

Recommendation No. 7: We recommend that USAID/Mali coordinate with the Embassy's Self-Help Coordinator to develop procedures that incorporate all required information into future self-help activity agreements.

Action Taken: Subsequent to the audit, the USAID Controller has reviewed this requirement, also described in the Special Self-Help Guide, with the SSH Coordinator and the USAID accounting staff. All parties have agreed to follow more closely the instructions in the Field Guide. As an internal control measure, the USAID accounting staff has been instructed to review all new Award Agreements to ensure all required elements are included before a funding citation is provided. It should also be noted, the USAID Regional Legal Advisor has been performing the same function when provided timely advance drafts of proposed agreements. Formal guidance was given to USAID OFM staff via OFM Notice 2003-01.

We believe all required action has been taken to resolve this recommendation and request RIG/Dakar close Recommendation No. 7 accordingly.

Please advise the mission of your decisions on the above recommendations at the earliest opportunity. If you require any additional information, please let us know.

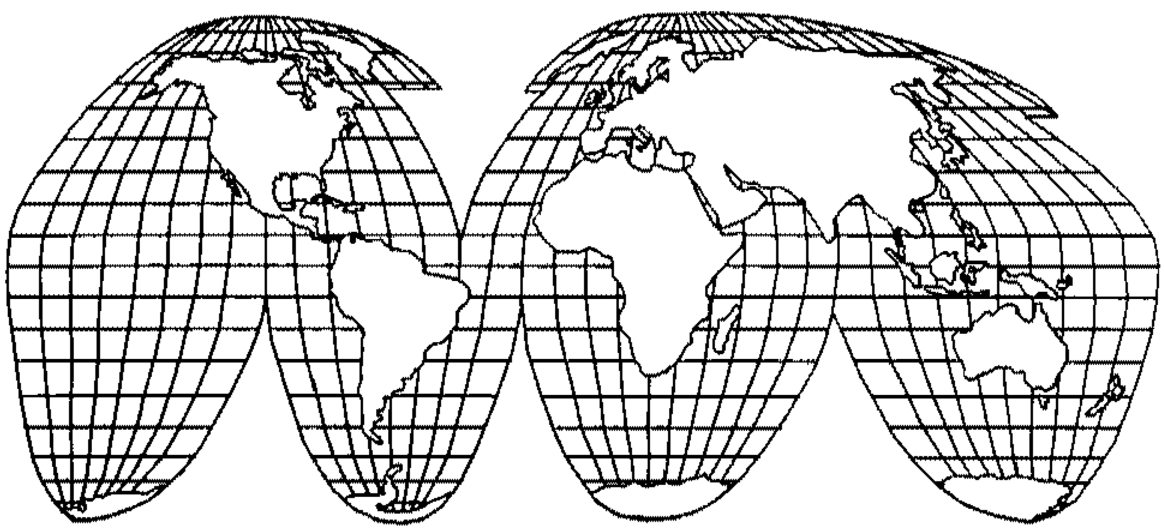
USAID

OFFICE OF INSPECTOR GENERAL

Follow-up of Recommendation No. 2, Audit of USAID/Russia's Monitoring of American International Health Alliance's Performance (Report No. B-118-03-002-P)

Audit Report No. B-118-05-001-P

March 11, 2005



U.S. Agency for International Development
Budapest, Hungary

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

MEMORANDUM

DATE: March 11, 2005

TO: USAID/Russia Mission Director, Terry Myers

FROM: Regional Inspector General/Budapest, Nancy J. Lawton /s/

SUBJECT: Follow-up Audit of Recommendation No. 2 from Audit Report No. B-118-03-002-P, Audit of USAID/Russia's Monitoring of American International Health Alliance's (AIHA) Performance (Report No. B-118-05-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your response as Appendix II.

The report contains no recommendations.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

In an April 2003 audit report, RIG/Budapest recommended that USAID/Russia take actions to ensure that the quarterly reports of one of its implementing partners, American International Health Alliance (AIHA) included consistent and comparable data related directly to AIHA's activities.

In response to the audit recommendation, USAID/Russia initiated appropriate efforts to improve the quality of data submitted by AIHA. These efforts justified final action on the recommendation.

Background

AIHA's Health Partnership Program is designed to support USAID/Russia's effort to improve the effectiveness of primary health care services, with special attention to the health of women and children and to improving disease prevention and control practices.

Our April 2003 audit report determined that USAID/Russia was adequately monitoring AIHA's performance. However, in testing data in AIHA's quarterly report to the Mission, we found that not all reported data was accurate, consistent and comparable. To address this problem, the audit report included the following recommendation:

> Recommendation No. 2: We recommend that USAID/Russia notify American International Health Alliance of the problems identified with data quality and require that future quarterly reporting include consistent and comparable data related directly to AIHA's activity.

In accordance with the Office of Management and Budget's Circular No. A-50 and Office of Inspector General audit policy, we selected Recommendation No. 2 for follow-up because it specifically dealt with activity monitoring and performance evaluation. The purpose of our recommendation follow-up was to ensure that management actions have corrected or are correcting the deficiencies identified in the audit report.

Audit Objective

This audit was part of the Office of Inspector General's fiscal year 2004 Annual Plan and was conducted to promote improvements in the way USAID manages for results, including planning, monitoring, and reporting on development activities.

The audit was conducted to answer the following question:

> **Did USAID/Russia take corrective actions to justify final action on Recommendation No. 2 of Audit Report No. B-118-03-002-P of April 9, 2003?**

The scope and methodology of this audit are detailed in Appendix I.

Audit Findings

USAID/Russia took appropriate corrective actions to justify final action on Recommendation No. 2 of the April 9, 2003 audit report.

In comments to the report, USAID/Russia stated that the Mission has notified AIHA, both verbally and by memo, of the problems identified with data quality. The Mission informed AIHA that USAID required future AIHA quarterly reports to include consistent and comparable data related to each activity. Also, according to the Mission, USAID/Russia and AIHA had jointly conducted a thorough data quality assessment during the development of and prior to the final approval of a revised Monitoring & Evaluation (M&E) plan.

The Mission further stated that during regular field trips, USAID/Russia health officials monitor program implementation and, as part of routine procedures, check and verify to the extent possible both the qualitative and quantitative data submitted by AIHA to USAID on a quarterly basis. According to the Mission, in all cases when inconsistencies or inaccuracies are revealed, AIHA is informed and required to provide clarification.

During our follow-up review, we confirmed that USAID/Russia and AIHA had revised the AIHA M&E plan in light of the concerns raised by the OIG audit. As part of this process, the Mission and AIHA developed Russia-specific performance indicators for which data was readily available and which corresponded to the major activities supported by USAID/Russia.

As a result of these efforts, AIHA and USAID/Russia implemented a revised quarterly reporting format which presented consistent and comparable data related to the new indicators. Our review of four quarterly reports from the period July 1, 2003 through September 30, 2004 showed that AIHA consistently used the agreed-upon indicators to report on activity progress.

We also reviewed selected USAID/Russia trip monitoring reports and found that Mission staff routinely checked and verified health program indicator data for compliance with USAID data quality standards. When data quality problems were identified, Mission staff expeditiously contacted AIHA to seek improvements. For example, following a site visit to AIHA-supported clinics in Samara, USAID staff noted that clinics were using different methodologies for collecting data on contraceptive use. Similarly, staff noted that the clinics were not consistently reporting the number of participants in patient education courses. Shortly after the completion of the monitoring trip, the Mission staff reported these and other data concerns to AIHA for correction.

Evaluation of Management Comments

In response to our draft audit report, USAID/Russia provided written comments that are included in their entirety in Appendix II. The Mission agreed with our findings.

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Scope and Methodology

Scope

The Regional Inspector General/Budapest conducted this audit in accordance with generally accepted government auditing standards except that the audit scope was limited to collecting sufficient information to determine if USAID/Russia took corrective actions to justify final action on Recommendation No. 2 of Audit Report No. B-118-03-002-P of April 9, 2003.

In planning and performing the limited scope audit, we considered relevant prior audit work completed in Russia. We did not assess management controls related to the activity or confirm, through an examination of source documentation, the validity of reported data.

We conducted the limited scope audit at USAID/Russia, located in Moscow, Russia. The audit fieldwork was conducted from October 4 through December 22, 2004.

Methodology

To answer the audit objective, we obtained and reviewed AIHA's revised Monitoring and Evaluation Plan and related correspondence. We evaluated changes to the reporting format and reviewed revised quarterly reports from the period July 1, 2003 through September 30, 2004 to determine if the new reporting format was being consistently used. We also obtained and reviewed selected USAID/Russia trip monitoring reports to determine if Mission staff verified health program indicator data for compliance with USAID data quality standards. Finally, we obtained and reviewed correspondence to determine if identified data problems were being communicated to AIHA for appropriate action.

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Management Comments

United States Agency for International Development

Local Address:	USAID/Moscow 19/23 Novinsky Bulvar Moscow 121099, Russia	**U.S. Mailing Address:**	American Embassy / Moscow PSC 77 USAID APO AE 09721
Telephone:	7 - 095 - 728 5000	**Fax:**	7 - 095 - 960 2141 / 42

February 14, 2005

TO: Regional Inspector General, Budapest, Nancy Lawton

FROM: Mission Director, USAID/Russia, Terry Myers /s/

SUBJECT: Follow-up Audit of Recommendation No. 2 from Audit Report No. B-118-03-002-P, Audit of USAID/Russia's Monitoring of American International Health Alliance's (AIHA) Performance (Report No. B-118-05-00X-P)

USAID/Russia agrees with the finding and thanks RIG/Budapest for its cooperation with the Mission's staff.

cc: USAID/Russia, Director, Office of Health, Betsy Brown
USAID/Russia, Project Management Specialist, Office of Health, Natalia Voziianova
USAID/Russia, Controller, Elizabeth Chambers
USAID/Russia, Financial Analyst, Julia Kostkina
USAID/Russia, Financial Analyst, Irina Veselieva

USAID

OFFICE OF INSPECTOR GENERAL

Quick Response Audit of the Liquidation of Expenditures under Grant No. 649-0141-G-00-4002-00 under Report No. 0-000-01-007-F

Audit Report (Report No. 0-000-01-007-F)
February 1, 2001

U.S. Agency for
International Development

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR CFO, Michael T. Smokovich

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Quick Response Audit of the Liquidation of Expenditures under Grant No. 649-0141-G-00-4002-00 under Report No. 0-000-01-007-F

This memorandum audit report is our report on the liquidation of expenditures processed under Grant No. 649-0141-G-00-4002-00. In response to matters brought to our attention on October 26, 2000, we have conducted a Quick Response Audit of the $4,010,082 liquidation of expenditures processed under Grant No. 649-0141-G-00-4002-00.

This audit was performed to determine whether USAID's Office of Financial Management followed adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. We determined that USAID's Office of Financial Management did not follow adequate internal controls to process program vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00.

The intent of this report was to present this issue to you, as early as possible, so that your managers can implement timely corrective action. We will follow-up on the recommendation included herein during our audit of USAID's 2001 financial statements. Also, we intend to perform additional work on the voucher approval and payment process to determine if there are any other misstatements that should have been reported.

We have received and considered the CFO's response to our draft report and its recommendation. We made one recommendation for USAID's management action. Based on your comments, we accepted your decision as management decision. Please forward to me all information on your request to the Office of Management and Planning and Innovation for acceptance of the final management action related to the recommendation. We have included your comments in Appendix II.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors.

Background

On October 26, 2000, the Office of Inspector General (OIG) was informed that USAID's Office of Financial Management (M/FM) had improperly processed vouchers totaling $4,010,082.

Effective June 1, 1994, USAID awarded $2 million to the World Food Program Somalia (WFP/Somalia) under Grant No. 649-0141-G-00-4002-00. This grant was funded through the Letter of Credit Support System. In accordance with this agreement, USAID would provide funds to WFP/Somalia for immediate cash disbursements, upon request. In return, WFP/Somalia would provide quarterly Financial Status Reports for activities carried out under this grant and would account for funds expended to enable USAID to liquidate the obligation established for this grant. WFP/Somalia would also provide Federal Cash Transaction Reports to USAID's Cash Management Branch (AID/M/CMP) on a monthly basis. The former USAID Somalia Mission Director, or his designee, was the project officer responsible for the project management over this grant. These responsibilities required the project manager to serve as the liaison with WFP/Somalia, review project reports, and provide general project monitoring.

The grant agreement was amended on September 16, 1996, to increase the funding to $4,010,082 and to extend the period of the grant from June 30, 1996, to June 30, 1997. The WFP/Somalia requested and received the additional $4,010,082 as authorized by the agreement.

Audit Objective

Our audit was initiated in response to a request submitted by the former USAID Somalia Mission Director on October 26, 2000, to review the approval and payment process for vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00.

The objective of this audit is:

> **Did USAID's Office of Financial Management follow adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00?**

Because of the urgency of this report, the scope of our audit was limited to the review of the specific vouchers in question for this grant. See Appendix I for a discussion of the scope and methodology for this audit.

Audit Finding

Did USAID's Office of Financial Management follow adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00?

We determined that USAID's Office of Financial Management did not follow adequate internal controls to process program vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. According to the Office of Financial Management, the vouchers were mistakenly processed during an exercise undertaken to process all vouchers on hand. As a result, USAID's Office of Financial Management overstated advance-related expenditures by recording approximately $4,010,082 of disapproved vouchers in its general ledger. USAID procedure states that concurrent with this processing of program vouchers they forward one copy of the program voucher to the project office to obtain the required Project Officers administrative review and approval.

Refer to the chronology of events below:

- On January 6, 1998, the former USAID Somalia Mission Director, Grant Project Officer, informed the World Food Program that he disapproved vouchers totaling $4,010,082 submitted under Grant No. 649-0141-G-00-4002-00 and returned them to the USAID Office of Financial Management. The vouchers were disapproved because the World Food Program did not submit requested detailed financial information to the former USAID Somalia Mission Director in accordance with the financial reporting requirements outlined in the grant agreement.

- On January 23, 1998, the former USAID Somalia Mission Director, directed USAID's Cash Management Branch to adjust the Letter of Credit by reversing the expenditures of $4,010,082 and re-establish the outstanding advance. The former USAID Somalia Mission Director informed the Cash Management Branch that he would give WFP another 30 days to submit new vouchers that conform to the terms of the grant. The entire $4,010,082 of funding was to be de-obligated if WFP/Somalia did not submit new vouchers confirming their expenditures.

- On January 23, 1998, per the former USAID Somalia Mission Director's request, USAID's Cash Management Branch prepared a voucher and schedule to record a correction for errors that would reverse all previously processed vouchers totaling the $4,010,082 under the grant. The reversal of the $4,010,082 was posted to the general ledger on February 4, 1998.

- On March 4, 1999, USAID's Cash Management Branch reprocessed the disapproved vouchers valued at $4,010,082.

- In December 2000, the OIG brought these matters to the attention of the USAID Office of Financial Management.

Recommendation No. 1: .We recommend that USAID's Office of Financial Management reverse the disapproved vouchers and re-establish the $4,010,082 as an outstanding advance.

Management Comments and Our Evaluation

In commenting on our draft audit report and its recommendations, the Chief Financial Officer has agreed with our audit findings and recommendation. The USAID Office of Financial Management will reverse the expenses and reestablish the $4,010,082 advance.

SCOPE AND METHODOLOGY

SCOPE

We conducted our audit in accordance with generally accepted auditing standards that require that we plan and perform the audit to obtain reasonable assurance about whether the advance accounts audited are free from material misrepresentation.

Our audit was initiated in response to a request submitted by the former USAID Mission Director on October 26, 2000, to review the approval and payment process for vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. We obtained an understanding of the voucher approval and payment policies and procedures for program advances and related internal controls. Further, we determined whether USAID complied with its policies and procedures and related internal controls.

Because of the urgency of this report, the scope of this audit is limited to a review of vouchers totaling approximately $4,010,082 submitted under World Food Program Grant No. 649-0141-G-00-4002-00. We relied on information provided by USAID, and the former USAID Mission Director and Grant Officer and the Office of Financial Management personnel.

INTERNAL CONTROL TESTING

Due to the limited scope of this audit, internal control testing was limited to those controls used to process and approve vouchers totaling approximately $4,010,082 submitted under World Food Program Grant No. 649-0141-G-00-4002-00. We have assessed the overall audit risk and materiality level at low in regards to the overall effect on the financial statements. We intend to perform additional work on the voucher approval and payment process to determine if there are any other misstatements that should have been reported in our fiscal year 2001 audit.

METHODOLOGY

In accomplishing our audit objectives, we reviewed the voucher approval and payment policies and procedures and applicable internal controls for program advances, and conducted interviews with personnel from the USAID Office of Financial Management. In addition, we reviewed correspondence between the USAID Office of Financial Management and the former USAID Somalia Mission Director, Grant Officer, and reviewed vouchers processed under Grant No. 649-0141-G-00-4002-00.

USAID MANAGEMENT COMMENTS

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

Date February 1, 2001

TO: IG/A/FA, Alvin A. Brown

FROM: M/DCFO, Elmer S. Owens

SUBJECT: Quick Response Audit of Liquidation of Expenditures Under Grant No. 649-0141-G-00-4002-00

We reviewed your draft report on the subject audit. We reversed the expenditure covered by the disapproved advance liquidation vouchers and reestablished the $4,010,802.00 advance.

Cc: M/CFO, S. Owens
M/PE, Marcus
M/OP, Mark Ward
M/MPI, C. Turner
M/FM, D. Ostermeyer
M/FM/CMP, R Leonard
M/FM/CMP, J. Dubious

Report No. 6-294-01-001-P
October 22, 2000

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Larry Garber

FROM: Acting RIG/Cairo, Thomas C. Asmus

SUBJECT: Audit of USAID/West Bank and Gaza's Implementation of the Federal Managers' Financial Integrity Act

This is our final report on the subject audit. We reviewed your comments to the draft report and have included them as Appendix II. Based on the Mission's comments, we consider that final action has been taken on the report's four recommendations and, hence, they are closed upon report issuance.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and controls. This law encompasses program, operational and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123[1] to provide detailed guidance for federal managers to use in designing management structures that help ensure accountability and include appropriate cost-effective controls.

The FMFIA also requires the U.S. General Accounting Office (GAO) to issue standards for internal control in the U.S. Government. Fundamentally, managers use a variety of controls, such as the policies and procedures that enforce management directives, to provide reasonable assurance that an agency can meet its objectives. These control activities help ensure that management takes action to address the risk factors that jeopardize an organization's achievement of its goals. Certain categories of control activities are common to all agencies and include appropriate documentation and the proper execution and accurate and timely recording of transactions and events.

[1] OMB Circular A-123, Management Accountability and Control.

OMB Circular No. A-123 states that management controls are the organization, policies and procedures used to reasonably ensure that:

- Programs achieve their intended results.
- Resources are used consistent with agency mission.
- Programs and resources are protected from waste, fraud and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported, and used for decision making.

In addition, the Circular provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations.

USAID Automated Directives System Chapter 596, Management Accountability and Control, (ADS 596) also provides policy and procedures for establishing, assessing, reporting on, and correcting management controls under the FMFIA and OMB Circular No. A-123. Finally, the USAID Bureau for Management, Office of Management Planning and Innovation (M/MPI) provides additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls.

Audit Objectives

The Office of Regional Inspector General/Cairo audited USAID/West Bank and Gaza as part of the worldwide audit to analyze the extent to which USAID has established a management process that satisfies the requirements of the Federal Managers' Financial Integrity Act. The specific audit objectives were:

- **Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

- **Has USAID/West Bank and Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

- **Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

Appendix I includes a discussion of the audit scope and methodology.

Audit Findings

Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza generally established management controls and periodically assessed those controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance. However, the Mission's assessments did not identify all the weaknesses the Mission was aware of, and certain management control checklist questions were not answered or fully answered.

The FMFIA and OMB Circular No. A-123 provide guidance for agencies and managers to establish management controls and to periodically assess the adequacy of those controls. Further, ADS 596 instructs missions and managers to:

- appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission,
- ensure that appropriate and cost-effective management controls are established,
- continuously perform management control assessments in accordance with instructions issued by M/MPI, and
- establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI annually provides guidance to missions for conducting FMFIA reviews. This guidance instructs missions to supplement management's judgment in assessing the adequacy of management controls with existing sources of information, such as:

- Knowledge gained from daily operation of USAID programs and systems.
- Management reviews.
- Office of Inspector General and GAO reports.
- Program evaluations.

M/MPI also has provided Management Control Checklists to assist in conducting the reviews. The fiscal year (FY) 1999 Checklist contained 189 control techniques extracted from the ADS, as shown in the following table.

CONTROL TECHNIQUES	
CATEGORY	***NUMBER***
Program Assistance	*42*
Organization Management	*7*
Administrative Management	*38*
Financial Management	*52*
Acquisition and Assistance	*42*
Audit Management and Resolution	*5*
Other	*3*
TOTAL	***189***

Generally, the Mission followed ADS policies and procedures on establishing management controls and assessing their adequacy. When deemed necessary, the Mission issued mission orders to complement or further clarify the ADS and to establish any needed policies, procedures and systems. For example, in August 1999, it issued a mission order establishing a travel reimbursement policy for authorized travel in Israel, including the West Bank and Gaza, and Jerusalem. Also, in February 2000, the Mission issued an order[2] to establish procedures and responsibilities for implementing the Audit Management Resolution Program (AMRP), which, among other things, formally established the Mission's MCRC.

Prior to February 2000, the Mission had not established an MCRC. However, in completing its FY1999 and FY1998 FMFIA assessments, USAID/West Bank and Gaza had informally established an MCRC and designated the Controller as the Audit Management Officer. The FY1999 FMFIA assessment was performed and reviewed by this MCRC that consisted of staffs from the financial management office, executive office, contract office, program office and deputy director's office. The heads of those offices completed various parts of the M/MPI checklist on control techniques.

Each member of the MCRC determined whether the controls in their areas of responsibility

[2] Mission Order No. 6, Management Control and Review Committee.

were satisfactory, and a consolidated checklist with all the members' responses was circulated for comment. All MCRC members reviewed the FY1999 FMFIA assessment, discussed the control techniques, and determined which identified internal control deficiencies were material. The members concluded that there were four material weaknesses in FY1999.

Although the Mission appropriately established management controls and periodically assessed those controls, it should have taken a more thorough, better-organized approach in completing its FY1999 FMFIA assessment. Our audit noted two areas that need to be improved for future assessments: identification of control weaknesses, and answering management control questions.

Identify All Weaknesses

The GAO Standards for Internal Control in the Federal Government (GAO Standard) states that management needs to comprehensively identify risks. Also, OMB Circular A-123,[3] states that managers should continuously monitor and improve the effectiveness of management controls associated with their programs and determine the appropriate level of documentation needed to support their assessment of risk. Lastly, ADS 596 requires continuous management control assessments.

As part of its control system, USAID/West Bank and Gaza assessed its internal management controls in accordance with the instructions from USAID/Washington, and ADS 596. However, for undetermined reasons, the Mission did not identify certain additional weaknesses, not in the Management Control Checklist, that it was aware of. Also, certain other weaknesses were noted but not considered to present enough risk to require correction.

For example, just prior to the FY1999 FMFIA assessment, RIG/Cairo conducted a survey of certain issues dealing with construction contracts in the Gaza Strip. One of the issues, identified by the Mission, was that key employees paid for under a fixed price contract apparently were also charging their costs to cost reimbursable or other contracts. At the conclusion of our survey we briefed the Mission that certain employees under a fixed price contract were in fact charging a portion of their time to a Mission cost reimbursable contract. However, while we verified that a problem existed, the Mission did not report the weaknesses in its FY1999 FMFIA assessment. Hence the weakness was not included in the Mission's tracking system to assure that the matter was properly resolved. The GAO Standard states that one of the risk identification methods is the consideration of findings from audits and other assessments. By not comprehensively identifying and following-up on the reported management control issues, the Mission did not comply with GAO standards on internal control.

[3] OMB Circular A-123, Part III, Assessing and Improving Management Control.

In another example, the Mission did not consider a FY1999 Management Control Checklist item related to audit management plans to be significant enough to require correction. ADS 591 requires an audit management plan and states that a copy of the plan should be provided to the cognizant RIG office. USAID/West Bank and Gaza is accountable for base funding levels of $85 million and $100 million for fiscal years 2000 and 2001, respectively. Further, in addition to these base assistance levels, the U.S. Government as a result of the September 1998 Wye River Memorandum, has pledged a further $400 million in assistance to the Palestinians over a three-year period (FY 2000-2002). An audit is one of the tools that can help ensure that funds are used properly, and audit plans help coordinate Washington and field efforts to assure that required audits are done. By not preparing and submitting the audit plan to the cognizant RIG office, the Mission is not in compliance with ADS 591.

An organized approach in identifying all management control issues that managers become aware of would allow management to promptly evaluate and determine proper actions in response to known deficiencies, and reported audit and other findings. Also, with an organized approach, management should be able to timely complete all actions to resolve deficiencies brought to its attention. To help the Mission identify and correct all weaknesses, we are making the following recommendation.

> **<u>Recommendation No. 1:</u> We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new management control weaknesses it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses.**

Answer All Management
<u>Control Checklist Questions</u>

M/MPI provided detailed instructions and guidance for conducting and reporting on the FY1999 and FY1998 assessments. According to those instructions, missions were to provide a certification statement, an update on the status of each material weakness identified in the prior year, and a description of any new, uncorrected material weaknesses identified in the current year. The GAO Standard states that "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination." The Controller's office maintained the completed management control review checklists for FYs 1999 and 1998. However, our audit noted that certain questions on the checklist were either partially answered or not answered at all, possibly because the Mission had not assigned responsibility to a specific office or the MCRC to assure the checklist was fully answered before certifying to the adequacy of the Mission's controls. Following are some examples of partially answered or unanswered questions:

- For FY1998, questions concerning procedures for handling sensitive but unclassified information were not fully answered.
- For FY1998, the Mission did not answer the entire section on Organization Management.
- For FY1998 and FY1999, the question concerning contractors maintaining accountable property records for Federal Information Processing resources was not answered in either checklist.
- For FY1999, the question related to annual evaluation forms reflecting management control responsibilities was answered "No", without any explanation for its one-word answer.

M/MPI staff said that it is clearly USAID's policy that management control responsibilities be reflected in the annual evaluation forms. They stated that the effective way to implement this policy would be to either create a separate work objective or ensure that work elements and performance appraisals reflect the effectiveness of the Mission's staff in establishing, assessing, correcting and reporting on management controls. The Mission, by not implementing this policy, was in noncompliance with ADS 596.5.5. Further, we consider that an incomplete Management Control Checklist could result in a misleading FMFIA certificate provided to USAID/Washington. Leaving certain Management Control Checklist questions blank, or providing one-word answers, are indicators of the Mission's noncompliance with M/MPI instructions for conducting the FY1999 FMFIA assessment, ADS 596, and the GAO Standards for Internal Control in the Federal Government. To help the Mission ensure that it responds to all management control questions, we are making the following recommendation.

> **Recommendation No. 2: We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFIA review to specific Mission staff or offices and (b) determine the status of the Management Control Checklist and document its completion.**

Has USAID/West Bank And Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza evaluated its system of internal accounting and administrative controls for FY1999 and identified four material weaknesses. The Mission reported those four weaknesses in its FY1999 FMFIA certification, dated October 22, 1999, in accordance with the FMFIA and related regulations and guidance. However, the Mission could have improved its reporting by disclosing certain concerns that were unresolved at the time of the submission of its FY1999 FMFIA certification.

Report Unresolved
Material Weaknesses

OMB Circular No. A-123 requires that a management control deficiency be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, ADS 596 and M/MPI's FY1999 FMFIA instructions required that missions provide a certification statement, an update on the status of each material weakness identified in the FY1998 review, and a description of any new uncorrected material weakness identified in FY1999, to the cognizant Assistant Administrator.[4] The certification should identify management control deficiencies determined to be material weaknesses,[5] including those that are not correctable within the Mission's authority and resources. However, for some undetermined reason, the Mission did not report a concern that, in our opinion, should have been reported as a material weakness. Also, it reported another material weakness as closed before the problem was fixed.

Palestinian Authority Tax - The Mission did not report the Palestinian Authority's value-added tax (VAT) issue as a material weakness in its FY1997 through FY1999 FMFIA certifications. It is our opinion that this issue should have been reported as a material weakness. Since 1995, the Palestinian Authority has taxed USAID programs when it is standard practice for USAID programs around the world to be exempt from taxes on official assistance. An estimate made by the Mission's program office indicated that during the period 1995-1999, the Palestinian Authority received approximately $7.9 million in VAT payments from USAID financed programs. Other donors with programs similar to USAID have agreements with the Palestinian Authority for tax exemption on official assistance. For example, an agreement between the Federal Republic of Germany and the Palestinian Authority states that the Palestinian Authority shall levy no taxes or other public charges on payments made from funds of the Government of the Federal Republic of Germany.

A June 1998 letter from the Mission Director to the Palestinian Authority's Minister of Finance clearly indicates that this issue is material. The letter states that some members

[4] For USAID/West Bank and Gaza, the cognizant Assistant Administrator is the Assistant Administrator for the Asia and Near East Bureau (AA/ANE).

[5] ADS 596 states that a material weakness generally would result in one of the following:

1. Significantly impairs the organization's ability to achieve its objectives.
2. Results in the use of resources in a way that is inconsistent with the Agency mission.
3. Violates statutory or regulatory requirements.
4. Results in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets.
5. Impairs the ability to obtain, maintain, report or use reliable and timely information for decision making; or
6. Permits improper ethical conduct or a conflict of interest.

of U.S. Congress have expressed concerns about USAID funds being used for VAT payments. The letter further states that prompt resolution of the VAT payment problem will remove this issue from the agenda of those who make decisions about the level of funding for the West Bank and Gaza program. Based on our discussions with Mission personnel, the Mission continues its work on this issue even though its resolution is not within the scope of the Mission's authority. ADS 596 states that the certification shall include a description of deficiencies determined to be material weaknesses, including those that are not correctable within the assessable unit's authority and resources. Therefore, until this weakness is resolved, the Mission should report it as a material weakness in its annual FMFIA certification.

Staff Shortage - Another material weakness that we think should have been reported as outstanding is a staffing shortage in the Mission's contracting office. Although, the Mission provided an update in its FY1999 FMFIA assessment regarding the status of this staff shortage, it indicated the issue as being closed in 1999. However, based on our review of the Mission's Management Control Checklist response, we think that the staffing shortage issue was closed prematurely. In its checklist response, the Mission recognized the staffing shortage as a major concern, but closed it based on positions having been approved rather than the approved positions being filled. In our opinion, as long as a material weakness is still a major concern, the Mission should continue to report it as a material weakness in its annual FMFIA certification. Hence, we are making the following recommendation.

> **Recommendation No. 3: We recommend that USAID/West Bank and Gaza, in its next FMFIA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as material weaknesses.**

Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza took corrective actions on most deficiencies identified in its FY1998 and FY1999 FMFIA reviews. However, it needs to improve and formalize its follow-up system to ensure timely and effective action on all deficiencies.

Improve Corrective Actions Tracking

OMB Circular No. A-123 states that agencies should perform management control assessments to identify deficiencies in agency programs and operations and develop corrective action plans to track progress in resolving the identified deficiencies. In addition, the ADS[6] states that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, although missions are not required to report non-material weaknesses to the next level of management, they are required to take timely and effective action to correct such deficiencies.

The Mission did not have a tracking system to monitor identified deficiencies that resulted from the FMFIA process for its FY1997 and FY1998 reviews but established a tracking system for FY1999. However, while the FY1999 review identified 37 deficiencies, the Mission only tracked the resolution of 19 deficiencies (17 identified during the FY1999 FMFIA process, and 2 identified outside the FMFIA process). Thus, it did not track all identified deficiencies, document the corrective action plans, monitor the corrective actions taken or to be taken, and document the review and approval of final corrective actions and closure of the deficiencies.

Without closely tracking its identified deficiencies and monitoring its planned corrective actions, the Mission places its operations at greater risk by allowing identified management control deficiencies to remain uncorrected for excessive periods of time. In addition, the Mission is in noncompliance with OMB Circular A-123 and USAID policy and procedures concerning timely action to correct management control deficiencies. We are making the following recommendation to help the Mission improve its system for tracking actions to correct management control deficiencies.

Recommendation No. 4: We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action.

Management Comments and Our Evaluation

The Mission agreed with the report's findings and recommendations and has taken appropriate action to address the report's four recommendations (see Appendix II).

The Mission addressed Recommendation No. 1, that its Management Control Review Committee identify all deficiencies it becomes aware of and determine proper corrective actions, by revising its Mission Order No. 6, Subject: Management Control and Review Committee (MCRC). The revised Mission Order requires the MCRC to discuss and document the identification of all new management control weaknesses it becomes aware of and determine proper corrective actions in response to such new weaknesses.

[6] Chapter 596, Management Accountability and Control, Section 596.3, "Responsibility."

The revised Mission Order No. 6 also addresses Recommendation No. 2, that the Mission designate responsibility for the FMFIA assessment to specific offices and document the completion of the Management Control Checklist. Under the revised Mission Order, the Mission Controller is designated as the responsible officer for conducting the annual FMFIA assessment, documenting its completion with a formal report to the MCRC, and planning follow-up actions for all weaknesses identified.

Regarding Recommendation No. 3, for the Mission to reconsider its decisions not to report as material weaknesses the Palestinian Authority tax issue and the Mission's contracting office staff shortage issue, the Mission stated that the MCRC and other senior managers had discussed these issues and they will be further discussed with Bureau representatives including the Deputy Assistant Administrator for ANE Bureau. The Mission believed its actions satisfy the intent of the recommendation, and we agree.

Lastly, regarding Recommendation No. 4, that the Mission revise its tracking system for deficiencies to ensure that the system tracks all deficiencies through final action, the Mission has initiated a new procedure for reporting and tracking deficiencies. Under the new procedure, the MCRC assures that for controls rated less than satisfactory the necessary corrective actions are determined, a planned resolution date is determined, and a responsible party is assigned to oversee follow-up.

We consider that the Mission's actions taken in response to the audit recommendations are appropriate and therefore consider that final action has been taken on the audit report's four recommendations. Hence, the recommendations are closed upon issuance of this final report.

APPENDIX I

SCOPE AND METHODOLOGY

We audited USAID/West Bank and Gaza's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from February 22 through March 8, 2000 at USAID/West Bank and Gaza.

We audited the Mission's FY1998 and FY1999 FMFIA assessments and the deficiencies noted under those assessments. The purpose of the audit was not to identify material weaknesses that were not reported by the Mission; however, if any such weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives, we used the FMFIA, Office of Management and Budget Circular No. A-123, the General Accounting Office's Standards for Internal Control in the Federal Government, USAID's Automated Directives System (ADS) Chapter 596, Management Accountability and Control, other ADS chapters relating to Agency policies and essential procedures, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID's Bureau for Management's Office of Management Planning and Innovation.

We interviewed the Mission's Management Control Official, members of the Mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the FY1998 and FY1999 FMFIA reviews, including the listings of management control deficiencies and management action plans for correcting those deficiencies. We reviewed the Mission's FY1997, FY1998 and FY1999 FMFIA certifications to the AA/ANE on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of material weaknesses or deficiencies identified in the FY1998 review.

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
WEST BANK AND GAZA MISSION

September 27, 2000

MEMORANDUM

TO: Darryl T. Burris, RIG/Cairo

FROM: Larry Garber, Director, WB/G

SUBJECT: Report No. 6-294-00-00X-P
Audit of USAID/West Bank and Gaza's Implementation of the Federal Managers' Financial Integrity Act

The Mission thanks RIG/Cairo for the objective analysis of the procedures related to our implementation of the FMFIA and the suggestions made of how those procedures might be improved. The information below provides our response to that draft audit report and the recommendations included therein.

Recommendation No. 1: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new management control weaknesses it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses."

Response: USAID/West Bank and Gaza has issued Mission Order No. 6, Revised (See Attachment A) which requires a discussion of "all management control weaknesses disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues." The revised Mission Order also requires the MCRC to assure "prompt resolution of internal control problems." We believe this satisfies recommendation no. 1 and ask that it be closed upon issuance of the report.

Recommendation No. 2: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFIA review to specific Mission staff or offices and (b) determine the status of the Checklist and document its completion."

Response: Mission Order No. 6, Revised (see attachment A) states that "The Mission Controller is responsible…for conducting the annual FMFIA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified." We believe this satisfies the recommendation and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 3: "We recommend that USAID/West Bank and Gaza, in its next FMFIA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as a material weakness."

Response: Both of these items were noted on the FY 2000 FMFIA management control assessment report summary (See attachment B). While the FMFIA report has not yet been finalized, (the due date to send it to the Bureau is October 20, 2000), the recommendation to reconsider the decisions concerning Palestinian VAT and staff shortages has occurred. The MCRC and other senior managers in the Mission have discussed these issues and they will be further discussed with Bureau representatives, including the Deputy Assistant Administrator for ANE, who will be visiting the Mission the week of October 2. We believe this satisfies the intent of recommendation no. 3 and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 4: "We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action."

Response: The Mission has initiated a new procedure for reporting and tracking deficiencies identified through the FMFIA process. All checklist items are rated as satisfactory (S), satisfactory, but could be improved (S/Imp) or unsatisfactory (U). The MCRC then sees that for those items rated U or S/Imp, a planned resolution date is determined, a responsible party is assigned to over see follow-up and the nature of necessary corrective actions is determined. Attachment B is an example of this reporting and follow-up mechanism. Note the columns marked RESOL(ution) DATE, RESP(onsible) PARTY and PLANNED ACTION. We believe that this tracking system combined with the responsibility for follow-up assigned to the Controller satisfies the recommendation. Accordingly, we ask that recommendation no. 4 be closed upon issuance of the report.

With the actions already taken and future implementation of the policies detailed in Mission Order No. 6, Revised, USAID/West Bank and Gaza believes that the recommendations stated in the draft report have been met and that all should be closed upon issuance of the final report.

Attachment A

USAID/West Bank and Gaza Mission Order No. 6, Revised

Subject:	**Management Control and Review Committee (MCRC)**
Authority:	**ADS Sections 103.5.8b, 103.5.12a, 592.3.4 and other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance.**
Effective Date:	**Upon the date of Director's signature.**
Reference:	**Automated Directive Systems (ADS) Chapter 590 through Chapter 596**

I. PURPOSE:

To establish the Management Control and Review Committee (MCRC) and to establish the Mission's procedures and responsibilities in implementing the Agency's Audit Management Resolution Program (AMRP) as defined in ADS Chapter 590 through 596 and provide guidance on its implementation.

II. THE MANAGEMENT CONTROL AND REVIEW COMMITTEE:

The Management Control and Review Committee shall manage and implement the Mission's AMRP. The MCRC will be chaired by the Deputy Mission Director and shall be comprised of Mission Senior Staff.

The MCRC shall meet at least every six months to review the status of AMRP implementation, discuss all management control weaknesses disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues. All MCRC meetings shall be documented and minutes maintained in the Director's Office. A copy of the minutes from each meeting shall be submitted to the Mission Director and made available to all Mission personnel. The Controller's Office will be responsible to keep track of all MCRC proceedings, drafting minutes and other documents as necessary.

The MCRC:

- Manages the annual internal management control assessment and assures prompt resolution of internal control problems;
- Provides oversight for the audit follow-up process by ensuring that audit follow-up responsibilities are correctly assigned and implemented;

- Serves as a decision-making body in situations involving audit follow-up impasses between the Regional Inspector General and the office to which action is assigned; and,

- Establishes Mission audit policies to mitigate mission specific risks.

III. RESPONSIBILITIES:

A. THE AUDIT MANAGEMENT OFFICER:

1. The Mission Controller is hereby designated the **Mission's Audit Management Officer (AMO)**. The AMO shall report to the MCRC and perform all the functions required by the referenced ADS sections.

2. The Mission Controller is also responsible, under the direction of the MCRC, for conducting the annual FMFIA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified.

B. MISSION AUDIT COMMITTEE:

The *Mission Audit Committee (MAC)* is a sub-committee of the MCRC. This Committee, chaired by the Controller, shall include as permanent members, the Deputy Director, the Legal Officer, the Director of the Program Office, the Executive Officer and the Director of the Contracting Office (or their designees).

The MAC shall ensure that all audit responsibilities are performed properly and that prompt and responsive action is taken on audit findings and audit recommendations. The MAC shall report regularly to the MCRC.

C. MISSION ACTIVITY MANAGERS:

Mission Activity Managers shall carry out all functions for Federal and Financial Audits as required by the ADS.

D. MANAGEMENT ACTION OFFICIAL (MAO):

A Management Action Official, identified by the MCRC based on each audit report, shall (a) Develop the mission response to draft and final audit recommendations related to area of responsibility; and, (b) Ensure that corrective action is completed for deficiencies identified in audits. The MCRC will identify the MAO for each audit in writing.

E. CONTRACTING OFFICER:

Performs all the functions required by the referenced ADS sections.

F. INTERNAL MANAGEMENT CONTROL ASSESSMENT:

The Controller, under the direction of the MCRC, will be responsible for coordinating the preparation of the Mission's annual FMFIA Internal Management Control Assessment and to ensure that all offices are actively involved in the evaluation of internal controls. The Controller will prepare a final assessment report to be given to the MCRC describing weaknesses identified throughout the process. The MCRC will then determine individuals responsible for follow-up action and a time frame to complete such action. The MCRC will advise the Mission Director of any weaknesses that should be highlighted in the annual Internal Control Certification and ways to act on the identified weaknesses.

G. RESPONSIBILITY FOR UPDATING THIS MISSION ORDER:

The Controller is responsible for ensuring that this Mission Order is up-to-date and consistent with the ADS or other Agency guidance. Whenever revisions or changes to this Mission Order may, in the opinion of the Controller, be necessary or desirable, the Controller shall prepare the proposed changes and revisions in draft for review by concerned Mission staff and in final for approval by the Mission Director.

IV. AUTHORITY:

This Mission Order is issued by the Mission Director under ADS Sections 103.5.8b, 103.5.12a, 592.3.4, and the other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance. The Mission Director retains concurrent authority to exercise any of the authorities or responsibilities delegated or assigned in this Mission Order to Mission staff except to the extent that the exercise of those authorities or responsibilities may be otherwise limited.

V. EFFECTIVE DATE:

This revised Mission Order shall become effective upon the date of my signature.

Larry Garber, Mission Director	7/15/00 Date

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Attachment B

WEST BANK/GAZA
FY 1999 Federal Managers' Financial Integrity Act (FMFIA) Review
Management Control Checklist

VII	OTHER	Rating	Risk	REMARKS	RESOL. DATE	RESP. PARTY	PLANNED ACTION
1	Corrective action has been accomplished for material weaknesses reported in the mission's FY 98 management control certification or revised corrective action plans and dates have been established.	[redacted]	High	The staff shortage notes in the FY 1999 FMFIA continues. While new USDH and USPSC positions have been approved, they have not been filled yet.			
2	A mission management control review committee is in place to address management accountability issues.	S	Med	Fully functioning since March 2000.			
3	Does the Mission have the necessary staff capability and expertise to properly manage the number of large construction contracts in the portfolio?	[redacted]	High	See #1 above.			
4	Has the Mission adequately addressed and documented the Palestinian VAT issue?	[redacted]	Med	This issue must be fully vetted with Mission senior staff, RLA and Bureau. It will be discussed with Bureau representatives during Program Week (Oct. 2 - 6).			
5	Annual Evaluation Forms reflect management control responsibilities, when applicable, and employees are evaluated on their effectiveness in carrying out these responsibilities.	[redacted]	Low	The Mission was criticized for this by RIG/Cairo in the FMFIA audit report. Mission should ensure that the ADS requirement is complied with.			

Report No. 6-294-01-001-P
October 22, 2000

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Larry Garber

FROM: Acting RIG/Cairo, Thomas C. Asmus

SUBJECT: Audit of USAID/West Bank and Gaza's Implementation of the Federal Managers' Financial Integrity Act

This is our final report on the subject audit. We reviewed your comments to the draft report and have included them as Appendix II. Based on the Mission's comments, we consider that final action has been taken on the report's four recommendations and, hence, they are closed upon report issuance.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and controls. This law encompasses program, operational and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123[1] to provide detailed guidance for federal managers to use in designing management structures that help ensure accountability and include appropriate cost-effective controls.

The FMFIA also requires the U.S. General Accounting Office (GAO) to issue standards for internal control in the U.S. Government. Fundamentally, managers use a variety of controls, such as the policies and procedures that enforce management directives, to provide reasonable assurance that an agency can meet its objectives. These control activities help ensure that management takes action to address the risk factors that jeopardize an organization's achievement of its goals. Certain categories of control activities are common to all agencies and include appropriate documentation and the proper execution and accurate and timely recording of transactions and events.

[1] OMB Circular A-123, Management Accountability and Control.

OMB Circular No. A-123 states that management controls are the organization, policies and procedures used to reasonably ensure that:

- Programs achieve their intended results.
- Resources are used consistent with agency mission.
- Programs and resources are protected from waste, fraud and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported, and used for decision making.

In addition, the Circular provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations.

USAID Automated Directives System Chapter 596, Management Accountability and Control, (ADS 596) also provides policy and procedures for establishing, assessing, reporting on, and correcting management controls under the FMFIA and OMB Circular No. A-123. Finally, the USAID Bureau for Management, Office of Management Planning and Innovation (M/MPI) provides additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls.

Audit Objectives

The Office of Regional Inspector General/Cairo audited USAID/West Bank and Gaza as part of the worldwide audit to analyze the extent to which USAID has established a management process that satisfies the requirements of the Federal Managers' Financial Integrity Act. The specific audit objectives were:

- **Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

- **Has USAID/West Bank and Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

- **Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

Appendix I includes a discussion of the audit scope and methodology.

Audit Findings

Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza generally established management controls and periodically assessed those controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance. However, the Mission's assessments did not identify all the weaknesses the Mission was aware of, and certain management control checklist questions were not answered or fully answered.

The FMFIA and OMB Circular No. A-123 provide guidance for agencies and managers to establish management controls and to periodically assess the adequacy of those controls. Further, ADS 596 instructs missions and managers to:

- appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission,
- ensure that appropriate and cost-effective management controls are established,
- continuously perform management control assessments in accordance with instructions issued by M/MPI, and
- establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI annually provides guidance to missions for conducting FMFIA reviews. This guidance instructs missions to supplement management's judgment in assessing the adequacy of management controls with existing sources of information, such as:

- Knowledge gained from daily operation of USAID programs and systems.
- Management reviews.
- Office of Inspector General and GAO reports.
- Program evaluations.

M/MPI also has provided Management Control Checklists to assist in conducting the reviews. The fiscal year (FY) 1999 Checklist contained 189 control techniques extracted from the ADS, as shown in the following table.

CONTROL TECHNIQUES	
CATEGORY	***NUMBER***
Program Assistance	***42***
Organization Management	***7***
Administrative Management	***38***
Financial Management	***52***
Acquisition and Assistance	***42***
Audit Management and Resolution	***5***
Other	***3***
TOTAL	***189***

Generally, the Mission followed ADS policies and procedures on establishing management controls and assessing their adequacy. When deemed necessary, the Mission issued mission orders to complement or further clarify the ADS and to establish any needed policies, procedures and systems. For example, in August 1999, it issued a mission order establishing a travel reimbursement policy for authorized travel in Israel, including the West Bank and Gaza, and Jerusalem. Also, in February 2000, the Mission issued an order[2] to establish procedures and responsibilities for implementing the Audit Management Resolution Program (AMRP), which, among other things, formally established the Mission's MCRC.

Prior to February 2000, the Mission had not established an MCRC. However, in completing its FY1999 and FY1998 FMFIA assessments, USAID/West Bank and Gaza had informally established an MCRC and designated the Controller as the Audit Management Officer. The FY1999 FMFIA assessment was performed and reviewed by this MCRC that consisted of staffs from the financial management office, executive office, contract office, program office and deputy director's office. The heads of those offices completed various parts of the M/MPI checklist on control techniques.

Each member of the MCRC determined whether the controls in their areas of responsibility

[2] Mission Order No. 6, Management Control and Review Committee.

were satisfactory, and a consolidated checklist with all the members' responses was circulated for comment. All MCRC members reviewed the FY1999 FMFIA assessment, discussed the control techniques, and determined which identified internal control deficiencies were material. The members concluded that there were four material weaknesses in FY1999.

Although the Mission appropriately established management controls and periodically assessed those controls, it should have taken a more thorough, better-organized approach in completing its FY1999 FMFIA assessment. Our audit noted two areas that need to be improved for future assessments: identification of control weaknesses, and answering management control questions.

Identify All Weaknesses

The GAO Standards for Internal Control in the Federal Government (GAO Standard) states that management needs to comprehensively identify risks. Also, OMB Circular A-123,[3] states that managers should continuously monitor and improve the effectiveness of management controls associated with their programs and determine the appropriate level of documentation needed to support their assessment of risk. Lastly, ADS 596 requires continuous management control assessments.

As part of its control system, USAID/West Bank and Gaza assessed its internal management controls in accordance with the instructions from USAID/Washington, and ADS 596. However, for undetermined reasons, the Mission did not identify certain additional weaknesses, not in the Management Control Checklist, that it was aware of. Also, certain other weaknesses were noted but not considered to present enough risk to require correction.

For example, just prior to the FY1999 FMFIA assessment, RIG/Cairo conducted a survey of certain issues dealing with construction contracts in the Gaza Strip. One of the issues, identified by the Mission, was that key employees paid for under a fixed price contract apparently were also charging their costs to cost reimbursable or other contracts. At the conclusion of our survey we briefed the Mission that certain employees under a fixed price contract were in fact charging a portion of their time to a Mission cost reimbursable contract. However, while we verified that a problem existed, the Mission did not report the weaknesses in its FY1999 FMFIA assessment. Hence the weakness was not included in the Mission's tracking system to assure that the matter was properly resolved. The GAO Standard states that one of the risk identification methods is the consideration of findings from audits and other assessments. By not comprehensively identifying and following-up on the reported management control issues, the Mission did not comply with GAO standards on internal control.

[3] OMB Circular A-123, Part III, Assessing and Improving Management Control.

In another example, the Mission did not consider a FY1999 Management Control Checklist item related to audit management plans to be significant enough to require correction. ADS 591 requires an audit management plan and states that a copy of the plan should be provided to the cognizant RIG office. USAID/West Bank and Gaza is accountable for base funding levels of $85 million and $100 million for fiscal years 2000 and 2001, respectively. Further, in addition to these base assistance levels, the U.S. Government as a result of the September 1998 Wye River Memorandum, has pledged a further $400 million in assistance to the Palestinians over a three-year period (FY 2000-2002). An audit is one of the tools that can help ensure that funds are used properly, and audit plans help coordinate Washington and field efforts to assure that required audits are done. By not preparing and submitting the audit plan to the cognizant RIG office, the Mission is not in compliance with ADS 591.

An organized approach in identifying all management control issues that managers become aware of would allow management to promptly evaluate and determine proper actions in response to known deficiencies, and reported audit and other findings. Also, with an organized approach, management should be able to timely complete all actions to resolve deficiencies brought to its attention. To help the Mission identify and correct all weaknesses, we are making the following recommendation.

> **<u>Recommendation No. 1:</u> We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new management control weaknesses it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses.**

Answer All Management
<u>Control Checklist Questions</u>

M/MPI provided detailed instructions and guidance for conducting and reporting on the FY1999 and FY1998 assessments. According to those instructions, missions were to provide a certification statement, an update on the status of each material weakness identified in the prior year, and a description of any new, uncorrected material weaknesses identified in the current year. The GAO Standard states that "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination." The Controller's office maintained the completed management control review checklists for FYs 1999 and 1998. However, our audit noted that certain questions on the checklist were either partially answered or not answered at all, possibly because the Mission had not assigned responsibility to a specific office or the MCRC to assure the checklist was fully answered before certifying to the adequacy of the Mission's controls. Following are some examples of partially answered or unanswered questions:

- For FY1998, questions concerning procedures for handling sensitive but unclassified information were not fully answered.
- For FY1998, the Mission did not answer the entire section on Organization Management.
- For FY1998 and FY1999, the question concerning contractors maintaining accountable property records for Federal Information Processing resources was not answered in either checklist.
- For FY1999, the question related to annual evaluation forms reflecting management control responsibilities was answered "No", without any explanation for its one-word answer.

M/MPI staff said that it is clearly USAID's policy that management control responsibilities be reflected in the annual evaluation forms. They stated that the effective way to implement this policy would be to either create a separate work objective or ensure that work elements and performance appraisals reflect the effectiveness of the Mission's staff in establishing, assessing, correcting and reporting on management controls. The Mission, by not implementing this policy, was in noncompliance with ADS 596.5.5. Further, we consider that an incomplete Management Control Checklist could result in a misleading FMFIA certificate provided to USAID/Washington. Leaving certain Management Control Checklist questions blank, or providing one-word answers, are indicators of the Mission's noncompliance with M/MPI instructions for conducting the FY1999 FMFIA assessment, ADS 596, and the GAO Standards for Internal Control in the Federal Government. To help the Mission ensure that it responds to all management control questions, we are making the following recommendation.

> **Recommendation No. 2: We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFIA review to specific Mission staff or offices and (b) determine the status of the Management Control Checklist and document its completion.**

Has USAID/West Bank And Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza evaluated its system of internal accounting and administrative controls for FY1999 and identified four material weaknesses. The Mission reported those four weaknesses in its FY1999 FMFIA certification, dated October 22, 1999, in accordance with the FMFIA and related regulations and guidance. However, the Mission could have improved its reporting by disclosing certain concerns that were unresolved at the time of the submission of its FY1999 FMFIA certification.

Report Unresolved
Material Weaknesses

OMB Circular No. A-123 requires that a management control deficiency be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, ADS 596 and M/MPI's FY1999 FMFIA instructions required that missions provide a certification statement, an update on the status of each material weakness identified in the FY1998 review, and a description of any new uncorrected material weakness identified in FY1999, to the cognizant Assistant Administrator.[4] The certification should identify management control deficiencies determined to be material weaknesses,[5] including those that are not correctable within the Mission's authority and resources. However, for some undetermined reason, the Mission did not report a concern that, in our opinion, should have been reported as a material weakness. Also, it reported another material weakness as closed before the problem was fixed.

Palestinian Authority Tax - The Mission did not report the Palestinian Authority's value-added tax (VAT) issue as a material weakness in its FY1997 through FY1999 FMFIA certifications. It is our opinion that this issue should have been reported as a material weakness. Since 1995, the Palestinian Authority has taxed USAID programs when it is standard practice for USAID programs around the world to be exempt from taxes on official assistance. An estimate made by the Mission's program office indicated that during the period 1995-1999, the Palestinian Authority received approximately $7.9 million in VAT payments from USAID financed programs. Other donors with programs similar to USAID have agreements with the Palestinian Authority for tax exemption on official assistance. For example, an agreement between the Federal Republic of Germany and the Palestinian Authority states that the Palestinian Authority shall levy no taxes or other public charges on payments made from funds of the Government of the Federal Republic of Germany.

A June 1998 letter from the Mission Director to the Palestinian Authority's Minister of Finance clearly indicates that this issue is material. The letter states that some members

[4] For USAID/West Bank and Gaza, the cognizant Assistant Administrator is the Assistant Administrator for the Asia and Near East Bureau (AA/ANE).

[5] ADS 596 states that a material weakness generally would result in one of the following:

1. Significantly impairs the organization's ability to achieve its objectives.
2. Results in the use of resources in a way that is inconsistent with the Agency mission.
3. Violates statutory or regulatory requirements.
4. Results in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets.
5. Impairs the ability to obtain, maintain, report or use reliable and timely information for decision making; or
6. Permits improper ethical conduct or a conflict of interest.

of U.S. Congress have expressed concerns about USAID funds being used for VAT payments. The letter further states that prompt resolution of the VAT payment problem will remove this issue from the agenda of those who make decisions about the level of funding for the West Bank and Gaza program. Based on our discussions with Mission personnel, the Mission continues its work on this issue even though its resolution is not within the scope of the Mission's authority. ADS 596 states that the certification shall include a description of deficiencies determined to be material weaknesses, including those that are not correctable within the assessable unit's authority and resources. Therefore, until this weakness is resolved, the Mission should report it as a material weakness in its annual FMFIA certification.

Staff Shortage - Another material weakness that we think should have been reported as outstanding is a staffing shortage in the Mission's contracting office. Although, the Mission provided an update in its FY1999 FMFIA assessment regarding the status of this staff shortage, it indicated the issue as being closed in 1999. However, based on our review of the Mission's Management Control Checklist response, we think that the staffing shortage issue was closed prematurely. In its checklist response, the Mission recognized the staffing shortage as a major concern, but closed it based on positions having been approved rather than the approved positions being filled. In our opinion, as long as a material weakness is still a major concern, the Mission should continue to report it as a material weakness in its annual FMFIA certification. Hence, we are making the following recommendation.

> **Recommendation No. 3: We recommend that USAID/West Bank and Gaza, in its next FMFIA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as material weaknesses.**

Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza took corrective actions on most deficiencies identified in its FY1998 and FY1999 FMFIA reviews. However, it needs to improve and formalize its follow-up system to ensure timely and effective action on all deficiencies.

Improve Corrective Actions Tracking

OMB Circular No. A-123 states that agencies should perform management control assessments to identify deficiencies in agency programs and operations and develop corrective action plans to track progress in resolving the identified deficiencies. In addition, the ADS[6] states that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, although missions are not required to report non-material weaknesses to the next level of management, they are required to take timely and effective action to correct such deficiencies.

The Mission did not have a tracking system to monitor identified deficiencies that resulted from the FMFIA process for its FY1997 and FY1998 reviews but established a tracking system for FY1999. However, while the FY1999 review identified 37 deficiencies, the Mission only tracked the resolution of 19 deficiencies (17 identified during the FY1999 FMFIA process, and 2 identified outside the FMFIA process). Thus, it did not track all identified deficiencies, document the corrective action plans, monitor the corrective actions taken or to be taken, and document the review and approval of final corrective actions and closure of the deficiencies.

Without closely tracking its identified deficiencies and monitoring its planned corrective actions, the Mission places its operations at greater risk by allowing identified management control deficiencies to remain uncorrected for excessive periods of time. In addition, the Mission is in noncompliance with OMB Circular A-123 and USAID policy and procedures concerning timely action to correct management control deficiencies. We are making the following recommendation to help the Mission improve its system for tracking actions to correct management control deficiencies.

<u>Recommendation No. 4:</u> We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action.

Management Comments and Our Evaluation

The Mission agreed with the report's findings and recommendations and has taken appropriate action to address the report's four recommendations (see Appendix II).

The Mission addressed Recommendation No. 1, that its Management Control Review Committee identify all deficiencies it becomes aware of and determine proper corrective actions, by revising its Mission Order No. 6, Subject: Management Control and Review Committee (MCRC). The revised Mission Order requires the MCRC to discuss and document the identification of all new management control weaknesses it becomes aware of and determine proper corrective actions in response to such new weaknesses.

[6] Chapter 596, Management Accountability and Control, Section 596.3, "Responsibility."

The revised Mission Order No. 6 also addresses Recommendation No. 2, that the Mission designate responsibility for the FMFIA assessment to specific offices and document the completion of the Management Control Checklist. Under the revised Mission Order, the Mission Controller is designated as the responsible officer for conducting the annual FMFIA assessment, documenting its completion with a formal report to the MCRC, and planning follow-up actions for all weaknesses identified.

Regarding Recommendation No. 3, for the Mission to reconsider its decisions not to report as material weaknesses the Palestinian Authority tax issue and the Mission's contracting office staff shortage issue, the Mission stated that the MCRC and other senior managers had discussed these issues and they will be further discussed with Bureau representatives including the Deputy Assistant Administrator for ANE Bureau. The Mission believed its actions satisfy the intent of the recommendation, and we agree.

Lastly, regarding Recommendation No. 4, that the Mission revise its tracking system for deficiencies to ensure that the system tracks all deficiencies through final action, the Mission has initiated a new procedure for reporting and tracking deficiencies. Under the new procedure, the MCRC assures that for controls rated less than satisfactory the necessary corrective actions are determined, a planned resolution date is determined, and a responsible party is assigned to oversee follow-up.

We consider that the Mission's actions taken in response to the audit recommendations are appropriate and therefore consider that final action has been taken on the audit report's four recommendations. Hence, the recommendations are closed upon issuance of this final report.

APPENDIX I

SCOPE AND METHODOLOGY

We audited USAID/West Bank and Gaza's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from February 22 through March 8, 2000 at USAID/West Bank and Gaza.

We audited the Mission's FY1998 and FY1999 FMFIA assessments and the deficiencies noted under those assessments. The purpose of the audit was not to identify material weaknesses that were not reported by the Mission; however, if any such weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives, we used the FMFIA, Office of Management and Budget Circular No. A-123, the General Accounting Office's Standards for Internal Control in the Federal Government, USAID's Automated Directives System (ADS) Chapter 596, Management Accountability and Control, other ADS chapters relating to Agency policies and essential procedures, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID's Bureau for Management's Office of Management Planning and Innovation.

We interviewed the Mission's Management Control Official, members of the Mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the FY1998 and FY1999 FMFIA reviews, including the listings of management control deficiencies and management action plans for correcting those deficiencies. We reviewed the Mission's FY1997, FY1998 and FY1999 FMFIA certifications to the AA/ANE on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of material weaknesses or deficiencies identified in the FY1998 review.

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
WEST BANK AND GAZA MISSION

September 27, 2000

MEMORANDUM

TO: Darryl T. Burris, RIG/Cairo

FROM: Larry Garber, Director, WB/G

SUBJECT: Report No. 6-294-00-00X-P
Audit of USAID/West Bank and Gaza's Implementation of the Federal Managers' Financial Integrity Act

The Mission thanks RIG/Cairo for the objective analysis of the procedures related to our implementation of the FMFIA and the suggestions made of how those procedures might be improved. The information below provides our response to that draft audit report and the recommendations included therein.

Recommendation No. 1: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new management control weaknesses it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses."

Response: USAID/West Bank and Gaza has issued Mission Order No. 6, Revised (See Attachment A) which requires a discussion of "all management control weaknesses disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues." The revised Mission Order also requires the MCRC to assure "prompt resolution of internal control problems." We believe this satisfies recommendation no. 1 and ask that it be closed upon issuance of the report.

Recommendation No. 2: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFIA review to specific Mission staff or offices and (b) determine the status of the Checklist and document its completion."

Response: Mission Order No. 6, Revised (see attachment A) states that "The Mission Controller is responsible…for conducting the annual FMFIA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified." We believe this satisfies the recommendation and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 3: "We recommend that USAID/West Bank and Gaza, in its next FMFIA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as a material weakness."

Response: Both of these items were noted on the FY 2000 FMFIA management control assessment report summary (See attachment B). While the FMFIA report has not yet been finalized, (the due date to send it to the Bureau is October 20, 2000), the recommendation to reconsider the decisions concerning Palestinian VAT and staff shortages has occurred. The MCRC and other senior managers in the Mission have discussed these issues and they will be further discussed with Bureau representatives, including the Deputy Assistant Administrator for ANE, who will be visiting the Mission the week of October 2. We believe this satisfies the intent of recommendation no. 3 and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 4: "We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action."

Response: The Mission has initiated a new procedure for reporting and tracking deficiencies identified through the FMFIA process. All checklist items are rated as satisfactory (S), satisfactory, but could be improved (S/Imp) or unsatisfactory (U). The MCRC then sees that for those items rated U or S/Imp, a planned resolution date is determined, a responsible party is assigned to over see follow-up and the nature of necessary corrective actions is determined. Attachment B is an example of this reporting and follow-up mechanism. Note the columns marked RESOL(ution) DATE, RESP(onsible) PARTY and PLANNED ACTION. We believe that this tracking system combined with the responsibility for follow-up assigned to the Controller satisfies the recommendation. Accordingly, we ask that recommendation no. 4 be closed upon issuance of the report.

With the actions already taken and future implementation of the policies detailed in Mission Order No. 6, Revised, USAID/West Bank and Gaza believes that the recommendations stated in the draft report have been met and that all should be closed upon issuance of the final report.

Attachment A

USAID/West Bank and Gaza Mission Order No. 6, Revised

Subject:	Management Control and Review Committee (MCRC)
Authority:	ADS Sections 103.5.8b, 103.5.12a, 592.3.4 and other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance.
Effective Date:	Upon the date of Director's signature.
Reference:	Automated Directive Systems (ADS) Chapter 590 through Chapter 596

I. PURPOSE:

To establish the Management Control and Review Committee (MCRC) and to establish the Mission's procedures and responsibilities in implementing the Agency's Audit Management Resolution Program (AMRP) as defined in ADS Chapter 590 through 596 and provide guidance on its implementation.

II. THE MANAGEMENT CONTROL AND REVIEW COMMITTEE:

The Management Control and Review Committee shall manage and implement the Mission's AMRP. The MCRC will be chaired by the Deputy Mission Director and shall be comprised of Mission Senior Staff.

The MCRC shall meet at least every six months to review the status of AMRP implementation, discuss all management control weaknesses disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues. All MCRC meetings shall be documented and minutes maintained in the Director's Office. A copy of the minutes from each meeting shall be submitted to the Mission Director and made available to all Mission personnel. The Controller's Office will be responsible to keep track of all MCRC proceedings, drafting minutes and other documents as necessary.

The MCRC:

- Manages the annual internal management control assessment and assures prompt resolution of internal control problems;
- Provides oversight for the audit follow-up process by ensuring that audit follow-up responsibilities are correctly assigned and implemented;

- Serves as a decision-making body in situations involving audit follow-up impasses between the Regional Inspector General and the office to which action is assigned; and,

- Establishes Mission audit policies to mitigate mission specific risks.

III. RESPONSIBILITIES:

A. THE AUDIT MANAGEMENT OFFICER:

1. The Mission Controller is hereby designated the **Mission's Audit Management Officer (AMO).** The AMO shall report to the MCRC and perform all the functions required by the referenced ADS sections.

2. The Mission Controller is also responsible, under the direction of the MCRC, for conducting the annual FMFIA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified.

B. MISSION AUDIT COMMITTEE:

The *Mission Audit Committee (MAC)* is a sub-committee of the MCRC. This Committee, chaired by the Controller, shall include as permanent members, the Deputy Director, the Legal Officer, the Director of the Program Office, the Executive Officer and the Director of the Contracting Office (or their designees).

The MAC shall ensure that all audit responsibilities are performed properly and that prompt and responsive action is taken on audit findings and audit recommendations. The MAC shall report regularly to the MCRC.

C. MISSION ACTIVITY MANAGERS:

Mission Activity Managers shall carry out all functions for Federal and Financial Audits as required by the ADS.

D. MANAGEMENT ACTION OFFICIAL (MAO):

A Management Action Official, identified by the MCRC based on each audit report, shall (a) Develop the mission response to draft and final audit recommendations related to area of responsibility; and, (b) Ensure that corrective action is completed for deficiencies identified in audits. The MCRC will identify the MAO for each audit in writing.

E. CONTRACTING OFFICER:

Performs all the functions required by the referenced ADS sections.

F. INTERNAL MANAGEMENT CONTROL ASSESSMENT:

The Controller, under the direction of the MCRC, will be responsible for coordinating the preparation of the Mission's annual FMFIA Internal Management Control Assessment and to ensure that all offices are actively involved in the evaluation of internal controls. The Controller will prepare a final assessment report to be given to the MCRC describing weaknesses identified throughout the process. The MCRC will then determine individuals responsible for follow-up action and a time frame to complete such action. The MCRC will advise the Mission Director of any weaknesses that should be highlighted in the annual Internal Control Certification and ways to act on the identified weaknesses.

G. RESPONSIBILITY FOR UPDATING THIS MISSION ORDER:

The Controller is responsible for ensuring that this Mission Order is up-to-date and consistent with the ADS or other Agency guidance. Whenever revisions or changes to this Mission Order may, in the opinion of the Controller, be necessary or desirable, the Controller shall prepare the proposed changes and revisions in draft for review by concerned Mission staff and in final for approval by the Mission Director.

IV. AUTHORITY:

This Mission Order is issued by the Mission Director under ADS Sections 103.5.8b, 103.5.12a, 592.3.4, and the other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance. The Mission Director retains concurrent authority to exercise any of the authorities or responsibilities delegated or assigned in this Mission Order to Mission staff except to the extent that the exercise of those authorities or responsibilities may be otherwise limited.

V. EFFECTIVE DATE:

This revised Mission Order shall become effective upon the date of my signature.

Larry Garber, Mission Director

7/15/00

Date

Attachment B

WEST BANK/GAZA
FY 1999 Federal Managers' Financial Integrity Act (FMFIA) Review
Management Control Checklist

VII	OTHER	Rating	Risk	REMARKS	RESOL. DATE	RESP. PARTY	PLANNED ACTION
1	Corrective action has been accomplished for material weaknesses reported in the mission's FY 98 management control certification or revised corrective action plans and dates have been established.	[redacted]	High	The staff shortage notes in the FY 1999 FMFIA continues. While new USDH and USPSC positions have been approved, they have not been filled yet.			
2	A mission management control review committee is in place to address management accountability issues.	S	Med	Fully functioning since March 2000.			
3	Does the Mission have the necessary staff capability and expertise to properly manage the number of large construction contracts in the portfolio?	[redacted]	High	See #1 above.			
4	Has the Mission adequately addressed and documented the Palestinian VAT issue?	[redacted]	Med	This issue must be fully vetted with Mission senior staff, RLA and Bureau. It will be discussed with Bureau representatives during Program Week (Oct. 2 - 6).			
5	Annual Evaluation Forms reflect management control responsibilities, when applicable, and employees are evaluated on their effectiveness in carrying out these responsibilities.	[redacted]	Low	The Mission was criticized for this by RIG/Cairo in the FMFIA audit report. Mission should ensure that the ADS requirement is complied with.			