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*Office of Inspector General*

March 28, 2005

**MEMORANDUM**

**TO:** Mission Director, USAID/West Bank and Gaza, James A. Bever

**FROM:** Regional Inspector General/Cairo, David H. Pritchard /s/

**SUBJECT:** Information on Status and Results of the First 30 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Consolidated Appropriations Acts of 2003, 2004, and 2005  
(Report No. 6-294-05-002-S)

This memorandum transmits our final report on the status and results of financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the Consolidated Appropriations Acts of 2003, 2004, and 2005. This is not an audit report, and the report does not contain suggestions or recommendations. In finalizing our report, we considered your comments on our draft report and have included your response in its entirety in Appendix II.

I appreciate the cooperation and courtesy extended to our staff throughout the survey.

# BACKGROUND

The Consolidated Appropriations Resolution of 2003, the Consolidated Appropriations Act of 2004, and the Consolidated Appropriations Act of 2005 included the following requirement.

The Administrator of the United States Agency for International Development shall ensure that Federal or non-Federal audits of all contractors and grantees, and significant subcontractors and subgrantees, under the West Bank and Gaza Program, are conducted at least on an annual basis.

To fulfill this requirement, each of these Acts also provided up to \$1 million to the USAID Office of Inspector General for audits, inspections, and other activities.

The Office of Inspector General has implemented a program under which it annually audits USAID's contractors and grantees, and significant subcontractors and subgrantees, that receive USAID funding for the West Bank and Gaza program.

## **SURVEY OBJECTIVE**

We conducted this survey as part of the Office of Inspector General's fiscal year 2004 audit plan to answer the following question:

- What are the status and results of the first 30 financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the Consolidated Appropriations Acts of 2003, 2004, and 2005?

# DISCUSSION

As of February 28, 2005, the Office of Inspector General had procured and overseen 72 financial audits and released 30 final audit reports. Appendix I provides a list of these 30 final reports. We plan to procure and oversee additional audits during fiscal year 2005.

## Questioned Costs

The 30 financial audits resulted in \$2.0 million in questioned costs out of \$50.5 million audited. The \$2.0 million in questioned costs (from 17 of the 30 audit reports) were 4.0 percent of the total costs audited.

**Table 1: Questioned Costs for the First 30 Financial Audits**

Unsupported <sup>1</sup> Questioned Costs	Ineligible <sup>2</sup> Questioned Costs	Total Questioned Costs	Total Costs Audited
\$232,742	\$1,779,369	\$2,012,111	\$50,490,616

## Reportable Conditions in Internal Control and Material Instances of Noncompliance

In addition to questioned costs, the 30 financial audits disclosed 28 reportable conditions in internal control and 45 material instances of noncompliance with agreement terms and applicable laws and regulations. Three of the 30 financial audits disclosed 26 of the 28 reportable conditions and 17 of the 45 material instances of noncompliance.

The average number of reportable conditions and material instances of noncompliance were 2.4 per audit. Fifteen of the 30 reports had neither reportable conditions nor material instances of noncompliance.

**Table 2: Number of Reportable Conditions in Internal Control and Material Instances of Noncompliance for the First 30 Financial Audits**

Reportable Conditions in Internal Control <sup>3</sup>	Material Instances of Noncompliance <sup>4</sup>	Total
28	45	73

<sup>1</sup> Unsupported questioned costs were not supported by adequate documentation or lacked required prior approvals or authorizations.

<sup>2</sup> Ineligible questioned costs were explicitly questioned because they were unreasonable, prohibited by the agreements or applicable laws and regulations, or were not program related.

<sup>3</sup> Reportable conditions in internal control relate to significant deficiencies in the design or operation of internal control that could adversely affect the recipient's ability to record, process, summarize, and report financial data.

<sup>4</sup> Material instances of noncompliance relate to noncompliance with agreement terms and applicable laws and regulations that could have a direct and material effect on the fund accountability statement of the organization.

# CONCLUSION

This report provides the status and results of the first 30 financial audit reports of USAID/West Bank and Gaza activities conducted in accordance with the statutory requirements of the Consolidated Appropriations Acts of 2003, 2004, and 2005. We plan to periodically issue status reports which will report on cumulative and comparative results over time.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/West Bank and Gaza provided additional helpful information on the status of the program, including the status of recommendations, the status of questioned costs, examples of questioned costs, and examples of reportable conditions in internal control and material instances of noncompliance. For example, USAID/West Bank and Gaza provided data that showed:

- For the 30 audit reports that were released to the Mission, 18 of these reports included 45 recommendations; 19 recommendations were related to questioned costs and 26 were related to internal control and compliance issues.
- For the status of the questioned costs of \$2,012,111, \$94,589 were disallowed and collected from recipients, \$894,496 were allowed by the Mission, and \$1,023,026 were outstanding pending the Mission reaching a management decision with our office.
- Examples of questioned costs included salary over billing, incorrect calculation of indirect costs, excess charges paid to subcontractors, compliance with source and origin requirements, and lack of prior USAID approval of procurement actions.
- For the status of the 26 recommendations relating to internal control and compliance issues, in 11 cases the Mission agreed with the recommendation and was taking or took corrective actions, in 4 cases the Mission found that the recipient or contractor was in compliance with the agreement terms and applicable laws and regulations, and in 11 cases a management decision had not been reached with our office.
- Examples of reportable conditions and material instances of noncompliance included improper procurement procedures, marking of fixed assets, incorrect calculation of indirect costs, noncompliance with source and origin waivers, and noncompliance with Acquisition and Assistance Policy Directive 02-04, "Implementation of Executive Order 13224—Executive Order on Terrorism Financing".

USAID/West Bank and Gaza said that based on the materiality of the questioned costs and the general findings on internal controls and compliance, the risk level according to the audits appeared minimal. We can neither agree nor disagree that the risk level appeared minimal, for two reasons. First, the new financial audit program for the West Bank and Gaza is still in its early stages of reporting results. Second, assessing risk needs to account for both internal and external factors, some being outside the span of control of management. Examples of outside factors include significance and sensitivity.

USAID/West Bank and Gaza also said that, although the prevailing security situation had adversely affected the Mission's monitoring on projects, the Mission was taking proper steps to ensure compliance by its contractors and grantees.

USAID/West Bank and Gaza also said that with regards to the audit recommendations, the Mission was taking timely actions to ensure that management decisions were reached and that outstanding recommendations were timely addressed and closed. We agree and appreciate the Mission's collaboration in ensuring that outstanding recommendations are timely addressed.

### Summary of West Bank and Gaza First 30 Financial Audits

#	Report Number	Recipient	Total Questioned Costs	Total Costs Audited	Reportable Conditions in Internal Control and Material Instances of Noncompliance
1	6-294-04-001-N	American Near East Refugee AID	\$0	\$9,550	0
2	6-294-04-002-N	America-Mideast Educational and Training Services Inc.	\$0	\$348,869	0
3	6-294-04-003-N	DPK Consulting International Inc.	\$54,181	\$7,970,020	0
4	6-294-04-004-N	Massar Associates	\$0	\$610,991	0
5	6-294-04-005-N	CARE International	\$0	\$640,580	0
6	6-294-04-006-N	Camp Dresser & McKee International Inc.	\$7,487	\$1,319,924	10
7	6-294-04-007-N	Save the Children Federation	\$4,507	\$129,838	0
8	6-294-04-008-N	CH2M Hill	\$26,237	\$3,483,509	2
9	6-294-04-010-N	Chemonics International Incorporated	\$0	\$8,128,089	0
10	6-294-04-011-N	Afaq General Contracting Group Ltd.	\$17,182	\$458,420	1
11	6-294-04-012-N	Save the Children Federation	\$0	\$1,563,021	0
12	6-294-04-013-N	Save the Children Federation	\$0	\$1,825,365	0
13	6-294-04-014-N	Save the Children Federation	\$0	\$786,700	0
14	6-294-04-015-N	Save the Children Federation	\$0	\$3,013,902	0
15	6-294-04-016-N	Camp Dresser & McKee International Inc.	\$0	\$288,536	1
16	6-294-05-001-N	Afaq General Contracting Group Ltd.	\$3,566	\$456,643	1
17	6-294-05-002-N	Development Alternatives Inc.	\$15,706	\$1,542,344	0
18	6-294-05-003-N	Young Men's Christian Association	\$5,245	\$1,840,418	2
19	6-294-05-004-N	Young Men's Christian Association	\$1,672	\$1,311,550	2
20	6-294-05-005-N	El Hanan Benevolent Association for Mother and Child	\$206,432	\$292,810	20

## APPENDIX I

#	Report Number	Recipient	Total Questioned Costs	Total Costs Audited	Reportable Conditions in Internal Control and Material Instances of Noncompliance
21	6-294-05-006-N	IBM Corporation	\$935,209	\$3,186,273	13
22	6-294-05-007-N	CARE International	\$320,085	\$2,003,628	4
23	6-294-05-008-N	CARE International	\$391,469	\$2,349,906	3
24	6-294-05-009-N	American Near East Refugee AID	\$1,467	\$2,416,505	4
25	6-294-05-010-N	American Near East Refugee AID	\$16,851	\$557,415	4
26	6-294-05-011-N	American Near East Refugee AID	\$3,524	\$1,355,025	4
27	6-294-05-012-N	American Near East Refugee AID	\$0	\$553,125	2
28	6-294-05-013-N	World Vision	\$1,291	\$320,120	0
29	6-294-05-014-N	World Vision	\$0	\$1,274,005	0
30	6-294-05-015-N	Al Quds University Center for Development in Primary Health Care	\$0	\$453,535	0
		<b>Totals=</b>	<b>\$2,012,111</b>	<b>\$50,490,616</b>	<b>73</b>



## MEMORANDUM

**DATE:** March 8, 2005

**TO:** David H. Pritchard, Regional Inspector General / Cairo

**FROM:** James A. Bever, Mission Director / USAID West Bank and Gaza /s/

**SUBJECT:** Information on audit program status and results of the first 30 financial audits of USAID West Bank and Gaza activities in accordance with the statutory requirements of the Consolidated Appropriations Act of 2003, 2004 and 2005. (Report No. 6-294-05-00x-S)

**Reference:** Pritchard / Bever memorandum dated 2/28/05

USAID West Bank and Gaza Mission would like to thank the Regional Inspector General/Cairo for their draft status report regarding the results of the first 30 financial audits of USAID West Bank and Gaza activities. We have reviewed the subject report and the following are our comments:

For the 30 audit reports that were released to the Mission, 18 of these reports included 45 recommendations; 19 recommendations were related to questioned costs and 26 were related to internal control and compliance issues. The Mission still needs to reach a management decision with RIG/C for 17 recommendations relating to 6 audit reports. There are also currently 31 recommendations relating to 10 audit reports that are outstanding with M/MPI pending final action and/or reaching a management decision with RIG/C.

Regarding questioned costs in the total amount of \$2,012,111, the status of these costs is as follows:

\$ 94,589	Costs disallowed and collected from recipients
894,496	Costs allowed by the Contracting / Agreement Officer
<u>1,023,026</u>	Costs outstanding pending the Mission reaching a management decision with RIG/C
<b><u>\$ 2,012,111</u></b>	<b>Total</b>

Examples of questioned costs (due to lack of documentation or ineligibility) included salary over billing, incorrect calculation of indirect costs, excess charges paid to subcontractors, compliance with source and origin requirements, and lack of prior USAID approval of procurement actions.

Regarding recommendations relating to internal control and compliance issues, the status of these recommendations is as follows:

- 11 Contracting/Agreement Officer agreed with the recommendation and is taking or took corrective actions
  - 4 Contracting/Agreement Officer found that the recipient/contractor was in compliance with the agreement terms and applicable laws and regulations and/or there were no internal control deficiencies.
  - 11 Management decision has not been reached with RIG/C.
- 26 Total Recommendations**

Examples of reportable internal control conditions and material instances of noncompliance included improper procurement procedures, marking of fixed assets, incorrect calculation of indirect costs, compliance with source and origin waivers, and noncompliance with AAPD 02-04 "Implementation of E.O.13224 – Executive Order on Terrorism Financing".

Based on the materiality of the questioned costs and the general findings on internal controls and compliance, the risk level according to the audits appears minimal. Although the Mission monitoring on projects have been adversely affected by the prevailing security situation, the Mission is taking proper steps to ensure compliance by its contractors and grantees.

With regards to the audit recommendations, the Mission, with its contractors and grantees, is taking timely actions to ensure that management decisions are reached with RIG/C and that outstanding recommendations are timely addressed and closure reached with M/MPI.

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