

Everett L. Mosley, Inspector General
Comments at March 2, 2001

DONOR CONSULTATIVE GROUP
ON ACCOUNTABILITY/ANTI-CORRUPTION IN
LATIN-AMERICAN

Good morning and welcome to USAID and the Ronald Reagan Building and International Trade Center. Needless to say this is a beautiful building and I hope you got a chance to absorb some of that breath taking beauty on your way in today.

I would like to take just a few minutes and share with you some things that we in USAID/OIG are doing to expand accountability over funds from USAID and all donors to insure that they are used as intended.

I am going to talk to you for just a few minutes about our oversight of USAID's Hurricane Mitch program in Central America. I know that our Regional Inspector General from the San Salvador office (Tim Cox) talked to you about this program in June 1999 when we were in the early development stages. However, this a brief update of our experiences.

Since many of your organizations are also involved in delivering reconstruction assistance to Central America, I think certain aspects of our experience might be of relevance to you.

I will briefly describe the process that we went through to develop the program, the results that we've reported and what we've learned.

USAID's reconstruction program is a \$621 million program, to be completed within a two-year period. The program involves more than 100 grantees and contractors, many of who are working through sub-grantees and subcontractors, so, in all, there are several hundred entities of various types carrying out USAID-funded activities in Central America. Some of these grants and contracts are very small-as small as \$100,000 or \$200,000 over a two-year period-and some are very large-as large as \$50 million over a two-year period. Some of USAID's partners on the Hurricane Mitch program are very

experienced and capable organizations and for others there are concerns about their capacities for the volume.

When we developed our plan for providing oversight for this very large, very diverse program, the most important thing we got right was, we realized that we couldn't do it without assistance. An interesting statistic is that, in the United States, about 88 percent of all fraud cases first come to the attention of the authorities through allegations: that is, a co-worker, or a disgruntled employee, or perhaps a supplier, sees that something is not right and tells someone about it. So in the overwhelming majority of the cases we see, we aren't going out and finding fraud, although in USAID we do have a pretty robust fraud detection capability. However, in the overwhelming majority of cases, someone is coming to us with an allegation.

So we wanted to make sure that the people who are managing USAID funds and activities on a day-to-day basis were equipped to serve, as our eyes and ears. We wanted to make sure that they could recognize fraud indicators-situations that might indicate that a fraudulent or abusive scheme is taking place-and we wanted to make sure that they knew how to report these indications of fraud when they come across them. So one element of our strategy, possibly the most important element-was a very large education effort where we provided fraud awareness briefings and written materials to over 2,100 people (USAID employees and employees of grantees and contractors working on USAID reconstruction programs in the region).

I think that this afternoon my Deputy Assistant Inspector General for Investigations will be talking about the fraud awareness training program in more detail, so I will not go into depth. But I do want to convey my sense that this program really did help meet what had been an important need. There were many, many cases where participants came up and told us that, while they had been working on USAID programs for many years, they had not really ever been given the type of practical, detailed information they needed to recognize fraudulent activities and report them. Based on the feedback we've received, accountability and transparency are not just issues that we in the donor community like to talk about. But are very important issues that citizens in Central America want to

talk about and, in fact, I think these are problems that they want to play a more active role in addressing.

Now, while the employees of USAID and of the contractors and grantees are our first lines of defense against fraud and abuse, I also think it is very important to have a very strong program for detecting problems through audits and investigations.

To help us decide what type of oversight would be appropriate for each individual activity financed by USAID under the Hurricane Mitch program, we performed risk assessments that considered four factors:

- Implementing entities - What experience USAID had with each entity and the audit history of the entity?
- Implementation Arrangements - Are there any special arrangements that either increase or decrease risk? (For example, in Honduras, the USAID mission hired public accounting firms to serve as "fiscal agents" who handle all receipts and disbursements on behalf of certain GOH agencies receiving assistance under the program. This obviously did not eliminate risk completely but this is a good example of the types of special implementation arrangements or controls that we had to be aware of when we were developing our oversight program. (This is analogous to assessing control risk during a financial audit.)
- Nature of Activities Financed - How inherently vulnerable are the activities? (For example, a construction activity has different vulnerabilities than a technical assistance activity. (This is analogous to assessing inherent risk during a financial audit.)
- Amount of Funding - All other things being equal, we felt that the larger activities deserved more oversight.

Based on these factors, we assessed risk and decided that the higher risk activities would be covered by concurrent audits, and the lower- risk activities would be covered in most cases by an annual audit (either contracted by USAID or by the recipient using a scope of work that we provide). And, of course, all of the activities under the Hurricane Mitch program are subject to coverage by performance audits performed by my staff.

Currently we are managing 21 concurrent audits and 68 annual audits. The concurrent audits are evenly divided between bilateral (government to government) grants and grants to U.S. and local NGOs.

I'd like to talk about the concurrent audits in a little bit more detail because I think that this term is often used by different people to mean different things. When we use the term "concurrent audits," we are talking about:

Audits by qualified auditors, from my staff or supervised by my office, in accordance with Government Auditing Standards.

- Quarterly reporting.
- The scope includes: report on fund accountability statement, a report on internal controls, a report on compliance, a review report on cost sharing schedule, and a report on follow-up on prior audit findings and recommendations.
- The audits can be done by public accounting firms, SAIs where we have signed an agreement with them to do audits of USAID funds under our supervision (e.g., in Honduras and El Salvador), also DCAA and possibly U.S. public accounting firms.
- OIG involvement in quality assurance: We approve the scope of work, the audit program, the draft report, and the final report. We also do monthly on-site supervision. Also, for firms that have a partnership agreement with an U.S. firm, the scope of work requires on-site supervision by U.S. staff and requires that the reports be signed in the name of the U.S. firm.

Our investigation staff has also been involved in both proactive initiatives and more traditional investigations. For example, they are engaged now in analyzing data from host country contracts to proactively search for evidence of bid rigging or other procurement irregularities. They have also been involved in providing information to our USAID mission staff on certain organizations and individuals that have in the past not been reliable partners.

We have been implementing this oversight program for more than a year and at this point we feel like it has worked pretty much as it was designed to work. Now some statistics which audit and accounting folk are always loaded with.

To date under our concurrent audit program, we have received 51 audit reports covering \$57.1 million in USAID funds.

The opinions expressed by the auditors are as follows:

- 42 unqualified (82 percent)
- 7 qualified (14 percent) (so a total of 96 percent are either unqualified or qualified)
- 1 negative/adverse (2 percent) (this was a case where the auditors identified questioned costs that weren't large in absolute terms - about \$24,000-but the questioned costs represented about 35 -40 percent of the amount audited and on this basis the auditors concluded that the financial statements did not fairly present the income and expenditures of the USAID activity.)
- 1 disclaimer (2 percent) (this was a case where the grantee was not able to prepare and present the financial statements to the auditors. This was corrected and subsequent audit reports of this grantee have had unqualified opinions.)

Questioned costs: \$1.2 million (2 percent of the amount audited)

Internal control conditions: 80

Cases of material non-compliance: 89

To put these numbers in perspective: these questioned costs have been of a relatively benign nature: we have not seen questioned costs because USAID funds were embezzled or used for frivolous purposes or used for purposes that we completely unrelated to the USAID-approved activity. Rather, we have seen ineligible uses of USAID funds that can be attributed to administrative weaknesses and internal control weaknesses (e.g., using USAID-funded pipe on non-USAID water projects) and cases where certain types of documentation were missing. For example, we have seen many

cases where an entity purchased goods or services: and either the entity failed to get three quotations or there was some other defect in the procurement process so that the auditors couldn't assure themselves that the entity really obtained the best quality and the lowest available price.

We are still mainly reporting results from the concurrent audit program, which cover the highest risk programs. As we begin to report more results from the annual audits, which cover the lower-risk programs, we expect that the number of reported problems will decline. And, under the concurrent audit program we have begun to see some evidence indicating that as the auditees gain experience with USAID requirements (and learn about weaknesses in their operations through our audit process), the number of problems reported has been declining. Our statistics show that, for the first quarter where we were able to issue a significant number of concurrent audits, the quarter ending March 31, 2000, questioned costs average about 7 percent of the amount audited. In subsequent quarters, the questioned costs of the amount audited have declined. The average number of internal control conditions and material instances of non-compliance, per report, have also declined over time.

In conclusion, since this is a coordination group I'd like to offer to share with you some of the tools we've used on this oversight program. In fact, this afternoon my Deputy Assistant Inspector General for Investigations will be sharing our fraud indicators manual and a fraud awareness video with you. I'd also like to offer to share with you the audit scopes of work, guidelines, and reporting formats that we've used for our concurrent audit program. You can obtain material and information by contacting the Assistant Inspector General for Audit at (202) 712-1020.