



USAID
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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/WEST BANK AND GAZA'S IMPLEMENTATION OF EXECUTIVE ORDER 13224— BLOCKING PROPERTY AND PROHIBITING TRANSACTIONS WITH PERSONS WHO COMMIT, THREATEN TO COMMIT, OR SUPPORT TERRORISM

AUDIT REPORT NO. 6-294-08-001-P
DECEMBER 10, 2007

CAIRO, EGYPT



Office of Inspector General

December 10, 2007

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Howard Sumka

FROM: Regional Inspector General/Cairo, Lloyd J. Miller /s/

SUBJECT: Audit of USAID/West Bank and Gaza's Implementation of Executive Order 13224—Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism (Report No. 6-294-08-001-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on our draft report and incorporated them where appropriate. They are included in their entirety as appendix II.

This report includes three recommendations to USAID/West Bank and Gaza: (1) to establish procedures to ensure compliance with existing policy that all subawardees are vetted, (2) to establish procedures to ensure compliance with existing policy that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000, and (3) to develop policies and procedures that address how each antiterrorism provision applies to assistance-related purchase orders. Based on your comments and the documentation provided, both management decisions and final actions have been taken for all recommendations. No further actions are required.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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SUMMARY OF RESULTS

The Regional Inspector General in Cairo, Egypt, conducted this audit to determine whether USAID/West Bank and Gaza implemented policies, procedures, and controls to comply with Executive Order 13224, which is intended to block property and prevent transactions with terrorists, potential terrorists, and their supporters (see page 3). The audit found that USAID/West Bank and Gaza has, in fact, implemented policies, procedures, and controls. Our opinion was based on the mission's (1) compliance with obtaining antiterrorism certifications from organizations awarded grants or cooperative agreements, (2) compliance with the inclusion of mandatory antiterrorism clauses in contracts and grants, (3) the correction of vetting database deficiencies previously identified, and (4) compliance with required vetting of organizations and individuals (see page 4).

With regard to required antiterrorism certifications and clauses, we reviewed all 42 prime awards and 20 randomly selected subawards that started during the 2-year period of January 1, 2005, through December 31, 2006.

- Of the 26 awards and subawards requiring antiterrorism certifications, all were compliant (see page 4).
- Of the 60 awards and subawards requiring mandatory clauses, 59 were compliant (see page 4). The one exception was a March 2005 purchase order subaward (no longer active) for approximately \$91,000 that did not include the mandatory clauses (see page 4); however, the applicability of mission guidance to purchase orders was not sufficiently clear (see page 9).

The mission made substantial progress in correcting vetting database deficiencies previously identified, which included deploying a new vetting database, providing a four-part name in almost all database records, limiting the information able to be entered into approved data tables, eliminating the ability to overwrite data, establishing a clear audit trail for changes made to the data, storing vetting reports in locked cabinets, and designating the head of the Office of Contracts Management as the system owner for the new vetting database (see pages 5 and 6).

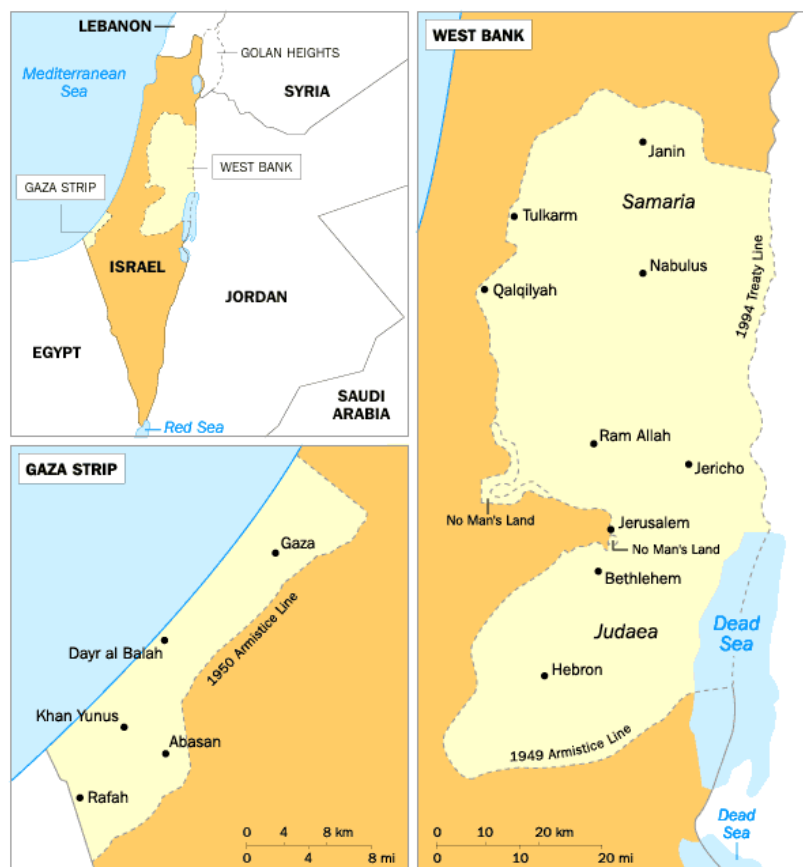
The audit did, however, note the need for some improvement. USAID/West Bank and Gaza did not vet 2 of 26 prime awardees and subawards in accordance with mission vetting procedures. Although both cases deal with awards that are no longer active, they highlight the need for USAID/West Bank and Gaza to take additional steps to improve vetting controls over organizations and individuals (see page 6). The report includes three recommendations to USAID/West Bank and Gaza to: (1) establish procedures to ensure compliance with existing policy that all subawardees are vetted; (2) establish procedures to ensure compliance with existing policy that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000; and (3) develop policies and procedures that address how each antiterrorism provision applies to assistance-related purchase orders (see pages 8 to 10).

In its response to the draft report, USAID/West Bank and Gaza agreed with all three of the recommendations and documented its actions to implement them; therefore, both management decisions and final actions have been taken for all recommendations (see page 11). USAID/West Bank and Gaza's comments for the draft report are included in their entirety in appendix II (see page 14).

BACKGROUND

Following the events of September 11, 2001, President Bush issued Executive Order 13224 – Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism, which took effect on September 24, 2001. Executive Order 13224 identifies certain individuals and entities that commit or pose a significant risk of committing terrorist acts. The directive, which authorizes both the Secretary of State and the Secretary of Treasury to designate additional individuals and entities, prohibits transactions with, and support for, individuals or entities listed in or subject to the order.

Maps of West Bank and Gaza



USAID/West Bank and Gaza primarily implemented Executive Order 13224 on terrorist financing through three mechanisms:

- Vetting: Screening organizations and individuals to ensure that the organizations or individuals are not affiliated with terrorism.
- Certifications: Requiring organizations to certify that the organization does not provide material support or resources for terrorism, before being awarded a grant or cooperative agreement by USAID.

- Clauses: Requiring clauses in awards and subawards which (1) remind contractors and recipients that U.S. Executive orders and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism and (2) restrict the naming of facilities in honor of individuals who commit, or have committed, acts of terrorism.

Since the issuance of the Executive order, USAID/West Bank and Gaza has established mission policies and procedures to comply with the directive. In August 2003, the mission issued its first comprehensive policy for vetting, certifications, and clauses. In March 2006, USAID/West Bank and Gaza updated its policy by issuing Mission Order No. 21, which establishes criteria requiring non-U.S. organizations and individuals to be vetted for links to terrorism prior to the awarding of contracts, grants, and cooperative agreements. The criteria considers dollar thresholds for cumulative awards, award types, and time since the organization was last vetted to determine whether or not an organization is required to be vetted.

In response to vetting database deficiencies identified by the USAID Inspector General and the U.S. Government Accountability Office, USAID/West Bank and Gaza deployed a new vetting database in December 2006.

AUDIT OBJECTIVE

We conducted this audit as part of the Office of Inspector General's audit plan for fiscal year 2007 to answer the following question:

- Has USAID/West Bank and Gaza implemented policies, procedures, and controls to comply with Executive Order 13224?

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

AUDIT FINDINGS

The audit found that USAID/West Bank and Gaza has implemented policies, procedures, and controls to comply with Executive Order 13224. We evaluated the mission's (1) compliance with obtaining antiterrorism certifications from organizations awarded grants or cooperative agreements, (2) compliance with the inclusion of mandatory antiterrorism clauses in contracts and grants, (3) the correction of vetting database deficiencies previously identified, and (4) compliance with required vetting of organizations and individuals. For compliance with obtaining antiterrorism certifications from awardees, the inclusion of mandatory antiterrorism clauses in contracts and grants, and the correction of vetting database deficiencies, USAID/West Bank and Gaza achieved substantial progress in correcting deficiencies.¹

With regard to required antiterrorism certifications and clauses, we reviewed all 42 prime awards issued during the 2-year period of January 1, 2005, through December 31, 2006. For the same time period, we also randomly selected and reviewed 20 subawards from a universe of 202 subawards issued during the same period (a total of 62 awards), which resulted in the following:

- Of the 26 awards (19 prime awards and 7 subawards) that required antiterrorism certifications in accordance with the mission's policies and procedures, all were in compliance.
- Of the 60 awards (40 prime awards and 20 subawards) that required the mandatory clauses in accordance with the mission's policies and procedures, 59 were in compliance. The one exception was a February 2005 purchase order subaward for approximately \$91,000 that did not include the mandatory clauses. This subaward is no longer active.

In October 2006, USAID/West Bank and Gaza implemented a new process to ensure that the mission received copies of required antiterrorism certifications and mandatory clauses for all subawards. The mission now requires prime recipients to submit a monthly listing of all new subawards to the Office of Contracts Management, along with copies of the antiterrorism certifications and contract clauses. The Office of Contracts Management reviews the documents to ensure that they comply with mission requirements for antiterrorism certifications and contract clauses. In order to test the effectiveness of these new procedures, we reviewed 89 additional subawards that began between January 1 to April 29, 2007. (USAID/West Bank and Gaza did not issue any new prime awards during this period.) These additional awards were selected on a random basis from a total universe of 204 subawards obtained from the monthly submissions by the prime awardees. For the 89 additional subawards reviewed, we found the following:

¹ See the following USAID Inspector General and U.S. Government Accountability Office reports.

- Inspector General, "Survey of USAID/West Bank and Gaza's Implementation of Executive Order 13224—Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (Report No. 6-294-05-004-S, March 30, 2005)
- Inspector General, "Quick Response Review of Vetting Procedures at USAID/West Bank and Gaza" (Report No. 6-294-06-001-S, June 19, 2006) (SBU)
- Government Accountability Office, "Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza" (GAO-06-1062R, September 29, 2006)

- Of the 15 subawards that required antiterrorism certifications in accordance with the mission's policies and procedures,² all prime recipients submitted copies of the required certifications.
- Of the 89 subawards that required the mandatory clauses in accordance with the mission's policies and procedures, all had the requested documentation.

USAID/West Bank and Gaza took action to correct vetting database deficiencies identified in previous audit work conducted by the USAID Inspector General and the General Accountability Office (GAO), including working with USAID Washington to deploy a new vetting database. Other examples of mission corrective actions included the following.

- The former vetting database was missing at least one of the names in the required four-part name³ in about 30 percent of the records. The new Partner Vetting System database was missing one of the names in about 3 percent of the records.
- The former vetting database had inappropriate data in approximately one out of every nine records. For example, fields designed to display key individuals' titles contained the names of Middle Eastern countries or titles such as "office boy" or "administrative assistant." The Partner Vetting System has limited the information able to be entered into approved data tables.
- The former vetting database included data fields that could be overwritten, and the database lacked an audit trail. The Partner Vetting System eliminated the ability to overwrite data and provided a clear audit trail for changes made to the data.
- The former vetting database was developed by a Palestinian Foreign Service national without USAID/West Bank and Gaza having obtained required approval. USAID/Washington developed the new Partner Vetting System under its system development process.
- USAID/West Bank and Gaza had not developed technical documentation for the former vetting database. USAID has developed user requirements, system architecture, data dictionaries, and user manuals for the Partner Vetting System.
- USAID/West Bank and Gaza formerly had not designated an office within the mission as the database owner. USAID/West Bank and Gaza designated the head of the Office of Contracts Management as the system owner for the Partner Vetting System.
- The mission stored vetting reports containing the names of key individuals linked to terrorism in an unlocked filing cabinet. The mission now stores these reports in locked cabinets.

² The certification process is a USAID-wide requirement and is not limited to USAID/West Bank and Gaza. The underlying requirement is from USAID Acquisition and Assistance Policy Directive 04-14 which refers to "organizations" receiving grants and cooperative agreements. As a consequence, certifications are not required for contracts. Of the 89 sampled sub-awards, 74 were subcontracts that did not require certifications.

³ The four-part name comprises the individual's given name, the father's given name, the grandfather's given name, and the individual's surname.

While these policies, procedures, and controls help ensure that U.S. assistance does not support terrorist activities, in 2 out of 26 cases tested, USAID/West Bank and Gaza did not vet awardees in accordance with mission policy. In both cases, the awards are no longer active. As a consequence, USAID/West Bank and Gaza needs to take additional steps to further improve the effectiveness of its controls for the vetting of organizations and individuals as follows:

- USAID/West Bank and Gaza should establish procedures to ensure compliance with existing policy that all subawardees are vetted.
- USAID/West Bank and Gaza should establish procedures to ensure compliance with existing policy that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000.
- In addition to the controls for vetting, the mission should also clarify how antiterrorism provisions apply to assistance-related purchase orders.

USAID/West Bank and Gaza Should Ensure all Awardees Are Vetted

Summary: USAID/West Bank and Gaza issued Mission Order No. 21 in March 2006 (superseding 2003 policy) updating vetting requirements. USAID/West Bank and Gaza did not vet 2 of 26 prime awardees and subawardees in accordance with mission vetting procedures. In one case, the mission attributed the lack of vetting to a concurrent change in policy. In the other case, the mission was not aware that the subcontractor existed. In both cases, the awards are no longer active. Without additional controls, the mission could inadvertently provide support to entities or individuals associated with terrorism.

USAID/West Bank and Gaza issued Mission Order No. 21 in March 2006 establishing the most recent vetting requirements. The new order superseded guidance issued in August 2003 and defined the applicability of vetting for contractors and subcontractors, recipients of assistance instruments, trainees, and other direct recipients of cash or in-kind assistance. Specifically, the mission order included the following requirements.

- The vetting of any non-U.S. organization or individual under a cooperative agreement, grant, or subgrant regardless of the dollar amount.
- The vetting of any non-U.S. organization or individual proposed for a contract or subcontract more than \$25,000. This included contracts to be awarded by USAID, subcontracts to be awarded by prime contractors, and contracts to be awarded by grantees and recipients of cooperative agreements.
- The \$25,000 threshold for contracts and subcontracts was cumulative for multiple awards to the same firm within a 12-month period. (This \$25,000 threshold was a decrease from the prior threshold of \$100,000.)
- For organizations, vetting applies only to first-tier and second-tier recipients.

- Once an awardee has been approved under these procedures and has received an award, the approval generally will remain in effect for that particular award until its expiration date.
- For any new awards or extensions of existing awards, the awardee must be vetted if more than 12 months has passed since the awardee was last approved pursuant to these procedures. If fewer than 12 months has passed, vetting is not required for that award or extension.

In addition to reviewing all 42 prime awards awarded during the 2-year period of January 1, 2005, through December 31, 2006, we randomly selected 20 subawards from a universe of 202 subawards awarded during the same period. Of the 62 awards, 26 (13 prime awards and 13 subawards) involved local entities that required vetting in accordance with the mission's policies and procedures. In 2 out of 26 cases tested, USAID/West Bank and Gaza did not vet the awardees for awards that are no longer active.

- USAID/West Bank and Gaza awarded a \$33,000 contract on September 26, 2005, to a local contractor, the Center for Engineering & Planning, to oversee completion of a new water transmission pipeline. The mission extended the period of performance and increased the contract on March 27, 2006, to \$66,000 and on April 29, 2006, increased it again to \$77,000. USAID/West Bank and Gaza originally vetted the Center for Engineering & Planning in 2003. In accordance with existing procedures in 2005, the mission did not submit the original \$33,000 award for vetting because it was subject to the 2003 mission order that included a \$100,000 threshold and did not require re-vetting for 3 years. However, with the increase in the award in March 2006, the mission should have vetted this award for two reasons: (1) The award was for more than \$25,000 and the new vetting threshold applied and (2) the duration of the prior vetting approval in 2003 was more than 12 months. (USAID/West Bank and Gaza's Mission Order No. 21 became effective on March 13, 2006—14 days before the subcontract. As a consequence, Mission Order No. 21 was applicable.) The mission attributed the lack of vetting to the concurrent change (14 day difference) in mission policy.
- USAID/West Bank and Gaza signed a contract in May 2005 with El Concorde to supply and install 2,750 meters of steel pipe. El Concorde (a local USAID/West Bank and Gaza prime contractor) awarded a \$312,562 subcontract on November 6, 2005, to a small local contractor, El Karama for Trading and General Contracting, to perform pipe trenching, backfilling, compaction, and restoration. In addition, El Karama installed concrete manholes and valves. Although required, USAID/West Bank and Gaza did not vet El Karama for Trading and General Contracting. The mission was not aware that this subcontractor existed.

These cases highlight two additional steps the mission should take to improve the effectiveness of mission controls for the vetting of organizations and individuals. First, USAID/West Bank and Gaza should establish procedures to ensure compliance with existing policy that all subawardees are vetted. Second, USAID/West Bank and Gaza should establish procedures to ensure compliance with existing policy that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000. Without these additional controls, the mission could inadvertently provide support to entities or individuals associated with terrorism.

With regard to procedures to ensure that all subawardees are vetted, the mission plans to expand the information required from prime awardees in their monthly reports. In October 2006, USAID/West Bank and Gaza implemented a new process to ensure that for subawards, the mission receives copies of required antiterrorism certifications and mandatory clauses. On a monthly basis, the mission now requires prime recipients to submit a listing of all new subawards to the Office of Contracts Management, along with copies of the antiterrorism certifications and contract clauses. The Office of Contracts Management reviewed the documents to ensure that they complied with mission requirements for antiterrorism certifications and contract clauses. Thus, to track vetting actions, the mission plans to also request and then review vetting information from prime awardees from the monthly submissions. According to the mission, for each award the prime recipient would be asked, (1) "Did vetting of the awardee take place prior to this award?" and (2) "Has your file been documented confirming the vetting result or the decision not to vet?" This additional information request will require prime recipients to document their decisions to vet subawardees in accordance with Mission Order No. 21.

With regard to procedures to ensure that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000, the mission relied on oversight by its cognizant technical officers and prime recipients. However, this oversight is not sufficient for the mission to determine whether the \$25,000 threshold has been exceeded in situations for which subcontractors receive awards from more than one prime contractor in different program areas. To track the cumulative rule for contracts, the mission now enters every contract and subcontract of up to \$25,000 into the Partner Vetting System to determine whether the award exceeds the threshold. This action alone does not trigger a vetting request, however. When a contract causes a particular award recipient to exceed the \$25,000 threshold, the mission's Program Support Unit will then advise the cognizant technical officer that a vetting request must be submitted. The mission plans to document this requirement in a revision to Mission Order No. 21.

Recommendation 1: We recommend that USAID/West Bank and Gaza establish and document procedures to ensure compliance with existing policy that all subawardees are vetted.

Recommendation 2: We recommend that USAID/West Bank and Gaza establish and document procedures to ensure compliance with existing policy that contractors and subcontractors are vetted if they receive contracts or subcontracts over any 12-month period that cumulatively total more than \$25,000.

USAID/West Bank and Gaza Should Clarify Applicability of Antiterrorism Provisions to Purchase Orders

Summary: Of 60 reviewed awards requiring antiterrorism contract clauses, 59 included evidence for the required mandatory clauses. The one exception was a February 2005 purchase order subcontract (no longer active) for approximately \$91,000 that did not include the mandatory clauses. As the Government Accountability Office (GAO) previously reported in September 2006, the applicability of mission guidance to purchase orders is not sufficiently clear, which reduces the effectiveness of the mission's controls to prevent terrorist financing.

With regard to required antiterrorism clauses, USAID/West Bank and Gaza awarded 42 prime awards during the two year period from January 1, 2005, through December 31, 2006. For the same time period, we also randomly selected 20 subawards from a universe of 202 subawards awarded for a total of 62. Of those, 60 (40 prime awards and 20 subawards) required the mandatory clauses in accordance with the mission's policies and procedures.

Of the 60 awards requiring contract clauses, 59 included evidence for the required mandatory clauses. The one exception was a February 2005 purchase order subcontract from one U.S.-based organization (John Snow Research and Training Institute) to another U.S.-based organization (Johns Hopkins University) for approximately \$91,000 to prepare a preliminary report outline for the evaluation of the USAID/West Bank and Gaza Maternity Homes Project. This award is no longer active.

In September 2006, GAO issued a report⁴ stating that, in the examination of USAID/West Bank and Gaza subaward information provided by prime awardees, auditors found some purchase orders with the antiterrorism clause and others without. Mission guidance applicable in 2005 and the more recent 2006 mission guidance (Mission Order No. 21) do not sufficiently clarify that the terms "contracts, grants, cooperative agreements" mean any instrument acting as a contract, grant, or cooperative agreement and that the mission's antiterrorism provisions apply to all such agreements including purchase orders. Accordingly, GAO recommended that USAID "develop policies and procedures that address how each antiterrorism provision applies to consulting agreements, letters of understanding, memorandums of understanding, and purchase orders." USAID disagreed with the GAO recommendation noting that these instruments either do not provide assistance or are already covered by the mission's guidance.

We agree with the GAO position. The one exception in our sample of 60 awards was for an assistance-related purchase order subcontract of approximately \$91,000. However, according to current mission guidance, the inclusion of mandatory antiterrorism clauses within such an instrument is not sufficiently clear, thereby reducing the effectiveness of the mission's controls to prevent terrorist financing. As a result, we are making the following recommendation.

⁴ Government Accountability Office, "Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza" (GAO-06-1062R, September 29, 2006)

Recommendation 3: We recommend that USAID/West Bank and Gaza develop policies and procedures that address how each antiterrorism provision applies to assistance-related purchase orders.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/West Bank and Gaza agreed with all of the report recommendations and stated that the mission actions to implement each of the recommendations strengthen USAID compliance with the antiterrorism requirements of Executive Order 13224.

In response to recommendation no. 1, in October 2006, the mission implemented a new process to ensure that the mission receives copies of required antiterrorism certifications and mandatory clauses by requiring prime awardees to provide a monthly listing of all new subawards and copies of the required antiterrorism certifications and mandatory clauses. In order to ensure all relevant subawardees are vetted in accordance with policy, the mission expanded the monthly listing obtained from prime awardees which is submitted to the mission for review. For each new subaward, the prime awardee is now requested to (1) indicate whether vetting of the subawardee took place prior to the award and (2) confirm that the files have been documented confirming the vetting result or the decision not to vet. The mission promulgated this change to prime awardees through Notice WBG-2008-01, dated October 22, 2007.

In response to recommendation no. 2, in June 2007, the mission established a system by which every first and second tier contract up to \$25,000 (unless an exception applies) is entered into the Partner Vetting System on a monthly basis. When a contract causes the awardee to exceed the \$25,000 cumulative threshold over a 12-month period, the Partner Vetting System alerts mission staff that vetting is required. This requirement has also been documented in the recent revision to Mission Order No. 21 issued on October 3, 2007.

In response to recommendation no. 3, the revision to Mission Order No. 21 issued on October 3, 2007, included language clarifying that all written instruments that acted as contracts or grants are to be treated as such regardless of the name of the instrument. Additionally, Notice 2007-WBG-26 issued October 5, 2007, identified and elaborated on this addition to Mission Order No. 21, specifically addressing purchase orders as well as other types of instruments noted by name in the September 29, 2006, GAO report.

In addition, the mission stated that it continues to ensure mission and partner staff is aware of the need to remain diligent in regard to complying with the requirements of Executive Order 13224. This is done through periodic issuance of notices, through training conducted at both internal and partner meetings and through continuous informal meetings with mission staff and partners. Initial training specific to the revised Mission Order No. 21 was held on October 3, 2007, with mission staff and on October 18, 2007, with partner staff.

As a result of mission actions to implement each of the three recommendations, management decisions and final actions have been completed. USAID/West Bank and Gaza's comments for the draft report are included in their entirety in appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo conducted this audit in accordance with generally accepted government auditing standards. We performed the fieldwork for this audit at USAID/West Bank and Gaza from May 1 to June 5, 2007.

As part of its fiscal year 2007 audit plan, the Regional Inspector General/Cairo performed this audit to answer the following question: Has USAID/West Bank and Gaza implemented policies, procedures, and controls to comply with Executive Order 13224? In planning and performing the audit, we assessed the effectiveness of the following significant USAID/West Bank and Gaza controls for implementing Executive Order 13224 on terrorist financing:

- **Vetting:** Screening organizations and individuals to ensure that the organizations or individuals are not affiliated with terrorism.
- **Certifications:** Requiring organizations to certify that the organization does not provide material support or resources for terrorism before being awarded a grant or cooperative agreement by USAID.
- **Clauses:** Requiring clauses in awards and subawards which (1) remind contractors and recipients that U.S. Executive orders and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism and (2) restrict the naming of facilities in honor of individuals who commit, or have committed, acts of terrorism.

The audit team tested awards from two different samples covering two different time periods as follows.

- The audit team tested 62 awards from January 1, 2005, through December 31, 2006, consisting of all 42 prime awards and 20 randomly selected subawards from a universe of 202 subawards. The audit team reviewed these 62 prime awards and subawards for compliance with vetting, certifications, and contract clauses.
- The audit team tested 89 subawards from January 1, 2007, to April 29, 2007, from a universe of 204 subawards. From January 1, 2007, to April 29, 2007, the mission issued no prime awards. The audit team reviewed these 89 subawards for compliance with the certification and contract clause requirements.

We also considered prior audit findings of the USAID Inspector General and the U.S. Government Accountability Office.⁵

⁵ See the following USAID Inspector General and U.S. Government Accountability Office reports.

- Inspector General, "Survey of USAID/West Bank and Gaza's Implementation of Executive Order 13224—Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (Report No. 6-294-05-004-S, March 30, 2005)
- Inspector General, "Quick Response Review of Vetting Procedures at USAID/West Bank and Gaza" (Report No. 6-294-06-001-S, June 19, 2006) (SBU)
- Government Accountability Office, "Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza" (GAO-06-1062R, September 29, 2006)

Methodology

To form a conclusion about the audit objective, the audit team examined mission documents and interviewed mission staff including the USAID/West Bank and Gaza Deputy Director, the regional legal advisor, and contracting officers and staff. The audit team also examined the history of the implementation of the mission policies and procedures since the Executive order was issued on September 24, 2001. In addition, the audit team examined (1) the mission's vetting documentation and vetting database and (2) and procurement records to determine if antiterrorism certifications had been signed and the required clauses were included in the awards and subawards.

In evaluating the mission's vetting process, the audit team reviewed all 42 prime awards awarded during the 2-year period from January 1, 2005, through December 31, 2006. In addition, we randomly selected 20 subawards from a universe of 202 subawards during the same period for a total of 62. For the 62 awards reviewed, 26 (13 prime awards and 13 subawards) were non-U.S. entities that were required to be vetted. For each award, we determined (1) whether the award was to a U.S. or non-U.S. organization or individual, (2) the type of award, (3) the period of the award, and (4) the vetting criteria applicable during the award. We also reviewed the vetting request and the response to the vetting request for both the key individuals associated with the award as well as the organizations themselves.

In addition, the audit team examined the procedures for the new vetting database, the Partner Vetting System, which the mission deployed in December 2006. We also determined whether the mission had corrected previously identified weaknesses in the former vetting database.

In evaluating whether the missions' awards contained the antiterrorism certifications and contract clauses, the audit team reviewed all 42 prime awards awarded during the two year period of January 1, 2005, through December 31, 2006. In addition, we randomly selected 20 subawards from a universe of 202 subawards awarded during the same period for a total of 62 awards. For the 62 awards reviewed, a total of 26 awards (19 prime awards and 7 subawards) required antiterrorism certifications in accordance with the mission's policies and procedures. Sixty (40 prime awards and 20 subawards) required the award clauses.

In late 2006, the mission implemented a new process and control to ensure that subawards included the necessary antiterrorism certifications. In order to test the effectiveness of these new procedures, the audit team reviewed an additional 89 subawards with award start dates from January 1, 2007, to April 29, 2007. These additional awards were selected on a random basis from a total universe of 204 subawards obtained from the monthly submissions by the prime awardees. Of these 89 subawards, 15 required the antiterrorism certifications and 89 required the contract clauses.

MANAGEMENT COMMENTS



USAID
FROM THE AMERICAN PEOPLE

WEST BANK/GAZA

MEMORANDUM

Date: October 23, 2007

To: Lloyd Miller, Regional Inspector General - Cairo

From: Howard J. Sumka, Mission Director /s/

Subject: Audit of USAID/West Bank and Gaza's Implementation of Executive Order 13224-Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (Audit Report No. 6-294-08-00X-P)

The Mission is pleased to provide its management comments on the subject draft audit report entitled "Audit of USAID/West Bank and Gaza's Implementation of Executive Order 13224-Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (Audit Report No. 6-294-08-00X-P). The Mission hopes that the responses elaborated for each recommendation will be considered by RIG/Cairo as it prepares its final report.

The draft report includes three recommendations which are addressed below.

Recommendation 1: We recommend that USAID/West Bank and Gaza establishes and documents procedures to ensure that all sub-awardees are vetted in accordance with policy.

Mission Response: As mentioned in the draft report this recommendation is a result of findings related to 2 out of 26 tested cases in which vetting did not occur in accordance with Mission policies and procedures. In one case this was due to the concurrent change (10 day difference between policy issuance and award's extension) in Mission policy. In the other case this was due to the Mission not being made aware by the prime awardee that vetting was needed.

In October 2006, the Mission implemented a new process to ensure the Mission received copies of required antiterrorism certifications and mandatory clauses by requiring prime awardees to provide a listing of all new sub-awards and copies of the required antiterrorism certifications and mandatory clauses on a monthly basis.

In order to ensure all relevant sub-awardees are vetted in accordance with policy, the Mission expanded the monthly listing obtained from prime awardees which is submitted to the Mission for review. For each new sub-award, the prime awardee is now requested to: 1) indicate if vetting of the sub-awardee took place prior to award and; 2) confirm that their files have been documented confirming the vetting result or the decision not to vet. The Mission promulgated

this change to prime awardees through Notice WBG-2008-01, dated October 22, 2007 (see Attachment I).

Recommendation 2: We recommend that USAID/West Bank and Gaza establishes and documents procedures to ensure that contractors and sub-contractors are vetted if they receive contracts or sub-contracts over any 12-month time period which cumulatively total in excess of \$25,000 in accordance with policy.

Mission Response: This issue was raised by the RIG auditors during their fieldwork and as a result in June 2007, the Mission established a system by which every 1st and 2nd tier contract of \$25,000 and under (unless an exception per Mission Order #21 applies) is entered into the Partner Vetting System (PVS) on a monthly basis. When a contract causes the awardee to exceed the \$25,000 cumulative threshold over a 12-month period, the PVS alerts Mission staff that vetting is required. This requirement has also been documented in the recent revision to Mission Order #21 issued on October 3, 2007 (see Attachment II).

Recommendation 3: We recommend that USAID/West Bank and Gaza develops policies and procedures that address how each antiterrorism provision applies to assistance-related purchase orders.

Mission Response: As mentioned in the report, this recommendation is related to an earlier GAO report issued in September 2006, which suggested the need for additional clarifying guidance regarding how antiterrorism provisions apply to assistance-related purchase orders, and the current RIG/Cairo review which revealed that 1 of 60 reviewed awards (a purchase order issued in February 2005), did not include the mandatory antiterrorism clause.

To address this recommendation, the Mission Order #21 revision issued on October 3, 2007, included language clarifying that all written instruments that acted as contracts or grants are to be treated as such regardless of the name of the instrument. Additionally, Notice 2007-WBG-26 issued October 5, 2007 (see Attachment II), identified and elaborated on this addition to Mission Order #21, specifically addressing purchase orders as well as other types of instruments noted by name in the September 29, 2006 GAO report.

In addition to the above, the Mission continues to ensure Mission and Partner staff is aware of the need to remain diligent in regard to ensuring compliance with the requirements of Executive Order 13224. This is done through periodic issuance of Contractor/Grantee Notices which are disseminated to both Mission and Partner staff, and through training conducted at both internal and partner meetings, in addition to continuous informal meetings held with Mission staff and partners to discuss general and specific issues related to vetting. Initial training specific to the revised Mission Order #21 was held on October 3, 2007, with Mission staff and on October 18, 2007, with Partner staff.

The Mission appreciates the constructiveness of the RIG recommendations and we believe the documented Mission response to each strengthens USAID compliance with the antiterrorism requirements of Executive Order 13224. Based on the responses provided above and the accompanying documentation of actions taken, the Mission requests that RIG consider closing each recommendation upon issuance of the final report.

Thank you for the courtesies extended by your staff during the conduct of the audit.

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