



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

September 11, 2008

MEMORANDUM

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

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

SUBJECT: Information on Status and Results of the First 120 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Appropriations Acts of 2003, 2004, 2005, 2006 and 2007 (Report No. 6-294-08-001-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 appropriations acts of 2003, 2004, 2005, 2006, and 2007. 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 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, the Consolidated Appropriations Act of 2005, the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2006, and the Revised Continuing Appropriations Resolution, 2007, 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 appropriation acts states that USAID Office of Inspector General may use up to \$1 million of the funds appropriated for audits, inspections, and other activities.

To help USAID meet its expanded audit requirements under the above legislation, the Office of Inspector General has implemented a program to audit annually USAID's contractors and grantees, and significant¹ subcontractors and subgrantees, that receive USAID funding for the West Bank and Gaza program. This is the fourth report issued for the financial audit program. The Office of Inspector General issued the first report on the first 30 audit reports on March 28, 2005,² the second for 60 audit reports on August 15, 2006³ and the third for 90 audit reports on April 26, 2007⁴.

SURVEY OBJECTIVE

We conducted this survey as part of the Office of Inspector General's audit plan for fiscal year 2008 to answer the following question.

- What are the status and results of the first 120 financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the appropriations acts of 2003, 2004, 2005, 2006 and 2007?

¹ The threshold for "significant" was \$100,000 at the beginning of the program in 2003. We changed the threshold to \$200,000 in 2005, and then we changed the threshold to \$300,000 in 2006.

² Report No. 6-294-05-002-S, "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," March 28, 2005

³ Report No. 6-294-06-002-S, "Information on Status and Results of the First 60 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Consolidated Appropriations Acts of 2003, 2004, 2005, and 2006," August 15, 2006

⁴ Report No. 6-294-07-001-S, Information on Status and Results of the First 90 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Consolidated Appropriations Acts of 2003, 2004, 2005, and 2006," April 26, 2007

DISCUSSION

As of July 14, 2008, USAID had procured 200 financial audits, and the Office of Inspector General had issued 120 final audit reports. Appendix I provides a list of these 120 final reports. As required by the appropriations acts, USAID is procuring additional audits in fiscal year 2008.

Questioned Costs

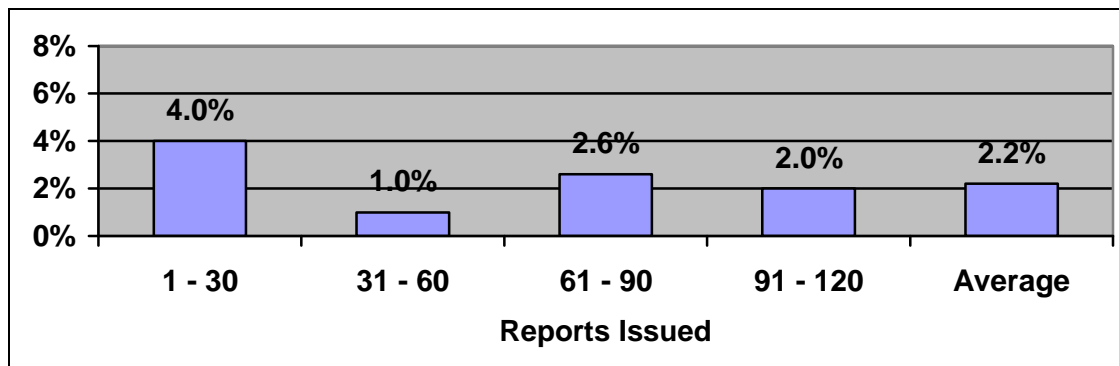
As shown in table 1, the first 120 financial audits resulted in \$6.3 million in questioned costs out of \$285 million audited. Of the 120 audits, the first 90 audits resulted in questioned costs of \$4.8 million while the next 30 audits resulted in \$1.5 million in questioned costs.

Table 1: Questioned Costs

Reports Issued	Unsupported ⁵ Questioned Costs	Ineligible ⁶ Questioned Costs	Questioned Costs	Audited Costs
1-30	\$232,742	\$1,779,369	\$2,012,111	\$50,490,616
31-60	\$303,664	\$544,329	\$847,993	\$84,367,802
61-90	\$18,602	\$1,914,737	\$1,933,339	\$74,093,312
91-120	\$403,059	\$1,084,171	\$1,487,230	\$75,875,358
Total	\$958,067	\$5,322,606	\$6,280,673	\$284,827,088

The total of \$6.3 million in questioned costs were 2.2 percent of the total audited costs. The questioned costs represent 4.0 percent for the first 30 audits, 1.0 percent for the second 30 audits, 2.6 percent for the third 30 audits, and 2.0 percent for the fourth 30 audits as shown in chart 1 below. Seventy-two of the 120 reports had questioned costs.

Chart 1: Questioned Costs as a Percentage of Audited Costs



⁵ Unsupported questioned costs are costs which lacked adequate documentation or required prior approvals or authorizations.

⁶ Ineligible questioned costs are costs that were unreasonable, prohibited by the agreements or applicable laws and regulations, or were not program related.

Reportable Conditions in Internal Control and Material Instances of Noncompliance

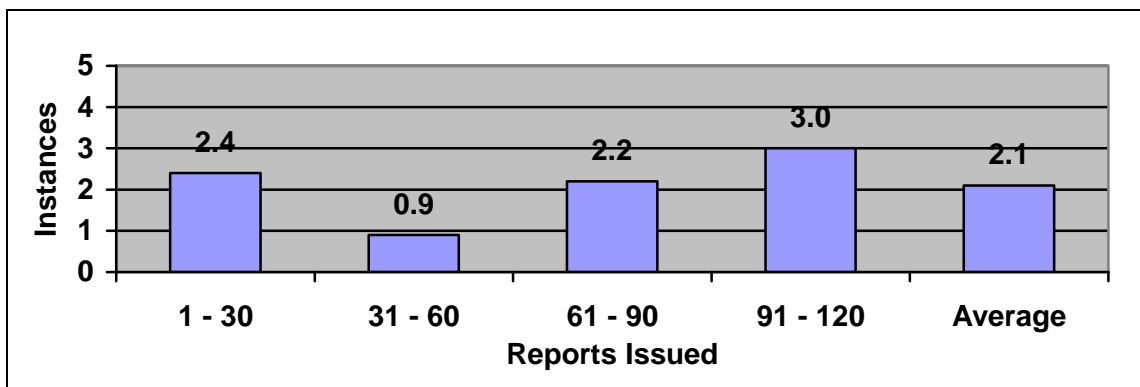
In addition to questioned costs, the 120 financial audits disclosed 67 reportable conditions in internal control and 188 material instances of noncompliance with agreement terms and applicable laws and regulations. Six of the 120 audits disclosed 40 of the 67 reportable conditions and 11 of the 120 financial audits disclosed 71 of the 188 material instances of noncompliance. As shown in table 2, the first 30 audits reported 73 reportable conditions and instances of noncompliance, the second 30 audits reported 28, the third 30 audits reported 65, and the fourth 30 audits reported 89 reportable conditions and instances of noncompliance.

Table 2: Number of Reportable Conditions in Internal Control and Material Instances of Noncompliance

Reports Issued	Reportable Conditions in Internal Control ⁷	Material Instances of Noncompliance ⁸	Total
1-30	28	45	73
31-60	5	23	28
61-90	19	46	65
91-120	15	74	89
Total	67	188	255

As shown in chart 2, the average number of reportable conditions in internal control and material instances of noncompliance was 2.1 per report for the first 120 audits—an average of 2.4 instances for the first 30 audits, 0.9 for the second 30 audits, 2.2 for the third 30 audits, and 3.0 for the fourth 30 audits. Seventy-two of the 120 reports had either reportable conditions or material instances of noncompliance.

Chart 2: Average Number of Reportable Conditions in Internal Control and Material Instances of Noncompliance per Report Issued



⁷ 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.

⁸ 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 audited statement of the organization.

CONCLUSION

This report provides the status and results of the first 120 financial audit reports of USAID/West Bank and Gaza activities conducted in accordance with the statutory requirements of the appropriations acts of 2003, 2004, 2005, 2006 and 2007. 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 fourth 30 audit reports that were released to the Mission, 18 of these reports included 34 recommendations; 17 recommendations were related to questioned costs, and 17 were related to internal control and compliance issues.
- For the status of the questioned costs of \$1,487,230 for the fourth 30 audit reports, \$431,353 were costs disallowed and collected from recipients, \$785,647 were costs allowed by the Mission, and \$270,230 were costs outstanding pending final determination.
- Examples of questioned costs included over billing, noncompliance with source and origin requirements, and lack of prior USAID approval of procurement actions.
- For the status of the 17 recommendations relating to internal control and compliance issues, in 15 cases the Mission agreed with the recommendations and took corrective actions, in 1 case the Mission found that the contractor was in compliance with the agreement terms and applicable laws and regulations, and in 1 case the Mission is in the process of making a management decision.
- Examples of reportable internal control conditions and material instances of noncompliance included improper compliance with source and origin requirements, noncompliance with Acquisition and Assistance Policy Directive 02-04, "Implementation of Executive Order 13224—Executive Order on Terrorism Financing", weak accounting system and controls, and lack of monitoring of sub-recipients.

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 appears minimal. We neither agree nor disagree that the risk level appeared minimal. 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 said that the Mission was taking proper steps to ensure compliance by its contractors and grantees. The Mission also said that it 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 120 Financial Audits

#	Report Number	Recipient	Total Questioned Costs	Total Audited Costs	Reportable Conditions in Internal Control and Material Instances of Noncompliance
1—30	See footnote 2 on page 2	Reports 1—30 Sub-total	\$2,012,111	\$50,490,616	73
31—60	See footnote 3 on page 2	Reports 31—60 Sub-total	\$847,993	\$84,367,802	28
61—90	See footnote 4 on page 2	Reports 61—90 Sub-total	\$1,933,339	\$74,093,312	65
91	6-294-07-024-N	Palestinian Tractor and Equipment Co.	\$0	\$475,181	8
92	6-294-07-025-N	Young Men's Christian Association	\$1,120	\$1,783,128	0
93	6-294-07-026-N	Alkhiesi Company	\$0	\$63,074	8
94	6-294-07-027-N	Engineering Center for Heating and A. C. Company	\$0	\$240,979	6
95	6-294-07-028-N	Chemonics International Inc.	\$98,332	\$14,031,468	5
96	6-294-07-029-N	Palestinian Trade Center	\$283,244	\$2,824,442	9
97	6-294-07-030-N	Alkhiesi Company	\$0	\$389,407	8
98	6-294-07-031-N	Development Alternatives Inc.	\$152,777	\$2,850,424	1
99	6-294-07-032-N	Ministry of Finance	\$0	\$20,000,000	0
100	6-294-07-033-N	Financial Markets International	\$0	\$708,390	1
101	6-294-07-034-N	East Jerusalem YMCA	\$0	\$941,897	2
102	6-294-07-035-N	Care International	\$0	\$2,618,007	2
103	6-294-07-036-N	International Orthodox Christian Charities	\$29,283	\$693,445	6
104	6-294-07-037-N	International Orthodox Christian Charities	\$431,482	\$1,971,421	9
105	6-294-07-038-N	DPK Consulting	\$58,901	\$632,953	3
106	6-294-07-039-N	American Near East Refugee	\$0	\$2,683,879	1
107	6-294-08-001-N	InterBuilMat Inc.	\$0	\$2,179,778	1
108	6-294-08-002-N	Corcel Corporation	\$0	\$4,358,462	1
109	6-294-08-003-N	Corcel Corporation	\$0	\$598,383	1
110	6-294-08-004-N	Financial Markets International	\$0	\$631,588	0
111	6-294-08-005-N	America-Mideast Education and Training Services	\$52,465	\$238,034	6

APPENDIX I

#	Report Number	Recipient	Total Questioned Costs	Total Audited Costs	Reportable Conditions in Internal Control and Material Instances of Noncompliance
112	6-294-08-006-N	American Jewish Joint Distribution Committee	\$0	\$175,991	0
113	6-294-08-007-N	Chemonics International Inc.	\$12,352	\$4,724,713	1
114	6-294-08-008-N	Chemonics International Inc.	\$0	\$1,536,069	0
115	6-294-08-009-N	Carana Corporation	\$269,659	\$3,560,652	4
116	6-294-08-010-N	Palestine Trade Center	\$0	\$352,463	0
117	6-294-08-011-N	Academy for Educational Development	\$7,641	\$823,695	3
118	6-294-08-012-N	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance	\$24,465	\$1,575,904	1
119	6-294-08-013-N	Massar Associates	\$0	\$623,068	0
120	6-294-08-014-N	Ministry of Finance	\$65,509	\$1,588,463	2
91-120		Sub-Total (Reports 91—120)	\$1,487,230	\$75,875,358	89
1-120		Grand Total (Reports 1-120)	\$6,280,673	\$284,827,088	255

MANAGEMENT COMMENTS

DATE: August 28, 2008

TO: Lloyd J. Miller, Regional Inspector General/Cairo

FROM: R. David Harden, Acting Mission Director

SUBJECT: Information on status and results of the first 120 financial audits of USAID West Bank and Gaza activities in accordance with the statutory requirements of the Appropriations Acts of 2003, 2004, 2005, 2006 and 2007. (Report No. 6-294-08-00x-S)

Reference: Miller / Sumka memorandum dated 08/19/2008

USAID/West Bank and Gaza would like to thank the Regional Inspector General/Cairo (RIG) for their status report regarding the results of the first 120 financial audits of USAID West Bank and Gaza activities. We have reviewed the subject report and have the following comments with regard to the additional 30 audits covered by this report:

Of the 30 audit reports that were released to the Mission since the last status report, 18 reports included 34 recommendations; 17 recommendations were related to questioned costs and 17 were related to internal control and compliance issues. 27 recommendations have been closed by M/CFO/APC. A management decision has been reached with RIG for seven recommendations which are pending final action. The Mission is in the process of drafting the Contracting Officer's determination for the remaining six recommendations and one recommendation was sent to APC for closure.

Regarding questioned costs in the total amount of \$1,487,230, the status of these costs is as follows:

<u>91 - 120</u>	
431,353	Costs disallowed and collected from recipients
785,647	Costs allowed by the Contracting/Agreement Officer
270,230	Costs outstanding pending the Mission reaching a management decision with RIG
<u>\$ 1,487,230</u>	Total

Examples of questioned costs (due to lack of documentation or ineligibility) included over-billing, noncompliance with source and origin requirements, and lack of prior USAID approval of procurement actions.

The status of recommendations relating to internal control and compliance issues is as follows:

- 15 Contracting/Agreement Officer agreed with the recommendations and corrective action has already been taken or is in process.
- 1 Contracting/Agreement Officer found that the contractor was in compliance with the agreement terms and/or applicable laws and regulations and there were no internal control deficiencies.
- 1 Contracting/Agreement Officer is in the process of making a management decision.

17 Total Recommendations

Examples of reportable internal control conditions and material instances of noncompliance included improper compliance with source and origin requirements, noncompliance with AAPD 02-04 “Implementation of E.O.13224 – Executive Order on Terrorism Financing”, weak accounting system and controls, and lack of monitoring of sub-recipients.

Based on the relative immateriality of the questioned costs and the general findings on internal controls and compliance, we assess the risk level as low. Nevertheless, the Mission continues to take appropriate measures to ensure compliance by its contractors and grantees, to ensure that management decisions are promptly agreed with RIG and to pursue closure of recommendations within targeted deadlines.