



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S NEW PARTNERS INITIATIVE CREATED UNDER THE PRESIDENT'S EMERGENCY PLAN FOR AIDS RELIEF

AUDIT REPORT NO. 9-000-08-002-P
December 12, 2007



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Office of Inspector General

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MEMORANDUM

TO: Director, Office of HIV/AIDS, S. Ken Yamashita, Ph.D.
Director, Office of Acquisition and Assistance, Maureen Shauket
Agreement Officer, Office of Acquisition and Assistance, Lisa Bilder

FROM: Director, Performance Audits Division, Steven H. Bernstein /s/

SUBJECT: Audit of USAID's New Partners Initiative Created Under the President's
Emergency Plan for AIDS Relief

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report and have included them in their entirety in appendix II of this report.

This report contains 10 recommendations to improve the implementation of USAID's New Partners Initiative. Based on your comments and the documentation provided, we consider that final action has been taken on Recommendation Nos. 1, 2, 4, 6, 7, and 10, and that management decisions have been reached on Recommendation Nos. 3, 5, 8, and 9. Determination of final action for Recommendation Nos. 3, 5, 8, and 9 will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

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

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SUMMARY OF RESULTS

The President's Emergency Plan for AIDS Relief is a five-year, \$15 billion approach to combat the global HIV/AIDS pandemic. To help support the Plan, President Bush announced the New Partners Initiative. The Initiative engages new partner organizations to increase their number and their capacity to provide HIV/AIDS prevention and care services.

This audit determined (1) whether the New Partners Initiative (NPI) impacts mission¹ workload and efforts to increase the number of partners for the President's Emergency Plan for AIDS Relief (PEPFAR) and (2) whether USAID's NPI partners have the capacity to comply with USAID administrative requirements.

With respect to the first objective, missions reported that NPI has impacted USAID mission workload and in-country efforts to increase the number of new partners to help achieve PEPFAR's prevention and care goals. Fourteen of 15 PEPFAR focus country² missions reported that NPI had increased their technical officers' workload, and 13 reported that NPI has generally increased their missions' workload. Although missions indicated that NPI had affected their efforts to create new partners, they were nearly evenly split about the nature of the impact. (See pages 5–6.)

In the missions' responses, the Office of Inspector General noted two consistent messages. First, the missions reported an increased workload caused by NPI. Second, the missions sent strong signals that the uncertainty about where the future management of NPI partners would reside had a negative effect on USAID interaction with the NPI partners. This effect ultimately could affect the effectiveness of the programs. Accordingly, this report contains two recommendations to Bureau for Global Health's Office of HIV/AIDS to address these matters. (See pages 6–7.)

With respect to the second objective, USAID's partners did not have the capacity to comply with certain USAID administrative requirements tested during the audit, but the audit identified areas where the partners are improving compliance with some of those requirements. Specifically, the audit noted weaknesses in NPI partners' ability to comply with financial and program reporting, accounting practices, and work plan requirements. Accordingly, this report contains five recommendations to the Office of HIV/AIDS to address these matters. (See pages 11–15.)

Finally, the audit identified two areas for improvement related to the conduct and management of NPI preaward surveys. First, the agreement officer did not have written assurance from three NPI partners that deficiencies identified in their preaward surveys were corrected. Second, the Automated Directives System does not recommend the use of a standard evaluation form for conducting preaward surveys or guidance on the followup review of identified deficiencies. To correct those matters, this report contains one recommendation to the Office of Acquisition and Assistance

¹ In this report, the term "mission" refers to the USAID organizational units known as USAID missions (or teams if there is not a mission) in the 15 focus countries.

² The 15 focus countries are Botswana, Ethiopia, Guyana, Haiti, Côte d'Ivoire, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Vietnam, and Zambia.

Agreement Officer overseeing the NPI awards and two recommendations to the Director of the Office of Acquisition and Assistance. (See pages 8–11.)

The auditees concurred with the audit recommendations included in this report and agreed to take or have taken corrective action on each recommendation. An evaluation of management comments is presented on page 16. Comments of the audited entities' management are included in appendix II.

BACKGROUND

In 2003, President George W. Bush signed into law the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act. The act, commonly referred to as the President's Emergency Plan for AIDS Relief (PEPFAR), is a 5-year, \$15 billion approach to combat the global HIV/AIDS pandemic—the largest international health initiative in history by one nation committed to a single disease. Included in the PEPFAR strategy are goals to support treatment for 2 million HIV-infected people, prevent 7 million new HIV infections, and provide palliative care to 10 million people infected or affected by HIV/AIDS, in 15 focus countries. These 15 countries represent approximately half of the world's 39 million HIV-positive people and 8 million children orphaned or made vulnerable by HIV/AIDS.

To help achieve PEPFAR's aggressive set of goals, President Bush announced the New Partners Initiative (NPI) in 2005. NPI is directed by the Department of State's global AIDS coordinator, who appointed a New Partnerships director to manage the initiative. NPI offers approximately \$200 million through a series of cooperative agreements to new partner organizations to provide HIV/AIDS services in the 15 focus countries. Many of these potential partner organizations already provide HIV/AIDS prevention, care, and treatment services but have little or no experience working with the U.S. Government.

Under PEPFAR, NPI was created to build the capacity of organizations at the community level to achieve local ownership and enhance the long-term support and viability of HIV/AIDS responses. Specifically, NPI's goals are to (1) increase PEPFAR's ability to reach people with needed services by identifying potential new PEPFAR partner organizations, (2) increase the total number of partner organizations and their capacity to provide prevention and care services, and (3) build capacity in host nations by developing indigenous capacity to address HIV/AIDS to promote the sustainability of host nations' efforts.

To train potential partners about essential HIV/AIDS services, a series of four outreach conferences was held in the United States in 2006. Following the outreach conferences, two 3-day technical assistance and capacity-building workshops were held to give potential partners assistance in developing a comprehensive plan and submitting a successful grant proposal. NPI offers successful new partners postaward assistance to implement and develop a sustainable HIV/AIDS program.

On December 1, 2006, the first series of cooperative agreement awards, totaling approximately \$71 million—\$56 million from USAID and \$15 million through partner-leveraged cost sharing—established 20 awards for 19 new partners that will provide services in 13 of 15 focus countries. As of December 31, 2006, USAID had not disbursed any NPI project funds to its NPI partners.

AUDIT OBJECTIVES

In February 2007, staff from the Bureau for Global Health's Office of HIV/AIDS hosted a meeting with auditors from the Office of the Inspector General to discuss Agency concerns about certain aspects of the New Partners Initiative. In response to the Agency-requested meeting, the Office of Inspector General initiated this audit to answer the following objectives:

- Does the New Partners Initiative have an impact on USAID missions' workload and in-country efforts to increase the number of new indigenous nongovernmental partners to help achieve the President's Emergency Plan for AIDS Relief prevention and care goals?
- Do USAID's partners receiving cooperative agreements under the New Partners Initiative have the capacity to comply with certain USAID administrative requirements?

Please refer to appendix I for details of the audit's scope and methodology.

AUDIT FINDINGS

Does the New Partners Initiative have an impact on USAID missions' workload and in-country efforts to increase the number of new indigenous nongovernmental partners to help achieve the President's Emergency Plan for AIDS Relief prevention and care goals?

The New Partners Initiative (NPI) has had an impact on USAID missions' workload and in-country efforts to increase the number of new indigenous nongovernmental partners to help achieve the President's Emergency Plan for AIDS Relief (PEPFAR) prevention and care goals. In response to an Office of Inspector General-administered questionnaire, 14 of 15 focus country missions reported³ that NPI has increased their workload. However, the nature of the impact on in-country efforts to increase the number of new indigenous partners was nearly evenly divided in questionnaire responses and, consequently, this audit could not conclude whether the impact was positive or negative.

Specifically, 13 of 14 missions reported that NPI had generally increased their missions' workload, and all 14 indicated that NPI had increased the workload of the missions' technical offices supporting PEPFAR efforts. Because NPI awards cooperative agreements to organizations with little or no U.S. Government experience,⁴ missions reported that they are devoting significant time and resources to assist the initiative in a variety of ways, such as familiarizing partners with administrative requirements and providing technical guidance for their work plans. Also, missions have provided substantial effort to support an array of NPI assignments. Focus country personnel have been utilized to solicit potential NPI partners, review and score concept papers, and conduct preaward surveys. As a result of the many new responsibilities that missions are performing for NPI, their ability to effectively manage NPI depends on the availability of resources. As more NPI agreements are awarded, the burden on focus country management and technical staff assisting NPI will almost certainly increase.

Although the preponderance of the missions' responses to the questionnaire concluded that NPI had impacted their ability to create new indigenous partners, their answers for whether the impact was positive or negative were inconclusive. When asked to describe NPI's impact on in-country efforts to increase the number of new indigenous partners, 12 missions reported an impact, 1 cited no impact, and another did not directly answer the question. More specifically, of the 12 missions that reported an impact, 5 said NPI had enhanced their efforts and 7 indicated that NPI had undermined theirs. The inconsistent responses may be attributed to the missions' uncertainty about where management of the NPI partners will reside in the future: at Washington headquarters or in the field. In fact, the one mission that did not respond to the questionnaire directly indicated such uncertainty in another question when it responded that the impact "depends on where the mechanism is managed."

³ One focus country team, Côte d'Ivoire, did not respond.

⁴ Defined as no more than \$5 million in U.S. Government funding during the preceding 5 years, excluding disaster or emergency assistance or funding as a subcontractor.

Fourteen missions' questionnaire responses provided compelling evidence of NPI's impact on their workload and drew attention to potential negative impacts of the uncertainty that mission personnel have about where future management of NPI partners will reside (i.e., at the Washington headquarters or in the field). These two matters are discussed more fully in the following two problem areas.

Focus Country Staffing Needs Review

Thirteen of 14 missions indicated in responses to an Office of Inspector General-administered questionnaire that NPI had increased their workload and, more specifically, every one noted that NPI had increased the workload of their technical officers. Many of the missions indicated or anticipated an increase in the workload of supporting financial management and contracting offices. One response noted that funding for NPI awards is not factored into the calculation of funding for mission management and staffing, even though the work NPI demands of the mission is "significant."

USAID's Automated Directives System (ADS) 200.3.2.4 says that the Agency's core value of empowerment and accountability "means that authority should be delegated consistent with the capacity to carry it out in a responsible and accountable manner." The Office of Inspector General (OIG) interprets this "core value" to mean that USAID organizational units should be provided with the capacity to carry out assigned duties responsibly and with accountability.

Because NPI is a relatively new program, the needed capacity of supporting elements may not yet be known or factored into resource allocations.

An inadequate allocation of resources to perform focus country mission support and management of NPI partners could lead to poor performance in the overall program.

***Recommendation No. 1:** We recommend that the Office of HIV/AIDS meet with the assistant administrator of the Bureau for Global Health to encourage an assessment of whether or not the allocated resources in each focus country are sufficient to support and manage the workload imposed by the New Partners Initiative.*

The Office of HIV/AIDS Should Resolve Where Partners Are Managed

Missions reported uncertainty about the USAID organizational level at which future management of the NPI partners will occur: at the country level or by Bureau for Global Health's Office of HIV/AIDS at the Washington headquarters. In 4 of 14 focus country responses to an Office of Inspector General-administered questionnaire, the missions expressed uncertainty about where future management of the NPI partners would be performed. Additionally, 10 of 14 raised the implications of a transfer of this management to the field from the Washington headquarters. None cited certainty about where the future management of NPI partners will occur.

USAID's ADS 200.3.2.3 describes the "core value" of teamwork. It says that "[t]he core value of teamwork and participation represents a belief that we are more effective when we work collaboratively with others, through teams or joint consultations with those who have expertise or interest in the outcome of our work." Accordingly, OIG concludes that whatever is decided about where the management of the NPI partners should reside, the decision should be made based on consultation with affected USAID operational units and should be shared with the affected focus country missions.

The uncertainty exists because the Office of HIV/AIDS did not clearly communicate to all focus country technical offices where it believed NPI awards would best be managed.

Missions alluded to the negative impact that the uncertainty is creating. Officials at one mission suggested that the uncertainty is affecting USAID interaction with its partners and ultimately could adversely affect the effectiveness of the programs. The same officials expressed "fear" that the missions' individual budgets would be used for future NPI awards. Another mission commented that "there needs to be a better understanding of who's responsible for what—it's very difficult to stay engaged and responsive if you're not sure who's driving the process." A third noted that it does not know the extent to which its financial management office would be affected by NPI partners because it is uncertain where NPI awards will be managed.

***Recommendation No. 2:** We recommend that the Office of HIV/AIDS communicate its intentions to focus country technical offices about where New Partners Initiative partners would best be managed—at Washington headquarters or at the country level.*

Do USAID's partners receiving cooperative agreements under the New Partners Initiative have the capacity to comply with certain USAID administrative requirements?

At the time that OIG performed the audit tests, the initial 19 NPI partners did not, as a group, demonstrate that they had the capacity to comply with selected USAID administrative requirements. However, after the audit tests were completed, there were indications that the partners were making improvements to comply with some of those requirements. Testing determined that only 9 of 19 partners met selected USAID administrative requirements outlined in all of the initial NPI cooperative agreements. The requirements tested related to financial and program reporting; accounting systems; cost sharing; debarment; year-one (the first year) work plans; Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism"; special award conditions; and capacity building. Table 1 presents the results of the audit's testing in terms of the scores assigned to the 19 partners.

Table 1: Results of the First Round of NPI Partners' Capacity to Comply with USAID Administrative Requirements

Percentage of Requirements Tested That Individual NPI Partners Complied With	Number of NPI Partners
90–100%	0
80–89%	9
70–79%	1
60–69%	7
50–59%	1
40–49%	0
30–39%	1
Total Partners	19

As shown in Table 1, 10 of 19 NPI partners scored below the 80 percent minimum for a partner to be considered as having capacity to comply with USAID administrative requirements. (See appendix I—Scope and Methodology—for additional details.) Although more than half of the NPI partners lacked the demonstrated capacity to comply with the USAID administrative requirements tested, the OIG noted some partner progress.

NPI partner performance relative to USAID administrative requirements is improving with regard to work plans and financial reporting. For example, the cognizant technical officer approved none of the initial submissions of the NPI partner work plans for the period December 1, 2006, through September 30, 2007. By June 30, 2007, all but one had been revised and approved. Similarly, five partners corrected and resubmitted financial reports to replace incorrect initial submissions.

Nevertheless, NPI partners performed poorly overall in the areas of complete and accurate financial reporting, accounting controls, program reporting, and work plans. The OIG believes that USAID guidance would improve partner capacity for these important administrative areas, especially since they relate to key controls over U.S. Government-provided funds, the planning of programs, and the reporting of program performance. The audit also noted the following areas for improvement in the administration of the cooperative agreements: (1) the responsible Office of Acquisition and Assistance agreement officers should have followed up on identified partner deficiencies and (2) the missions conducting preaward surveys could have better evaluated NPI partners on administrative and financial requirements if they had used a standard form. These concerns are discussed further in the following sections.

Followup Review of Partner Deficiencies Is Needed

The agreement officer responsible for USAID's NPI awards requested that preaward surveys be performed on the initial 19 NPI partners to determine whether each partner's accounting system met the minimum requirements contained in Title 22, pt. 226 of the Code of Federal Regulations (22 CFR pt. 226). As a practical matter, the followup review of accounting system deficiencies identified in NPI partner preaward surveys was not actively managed. Of the 16 NPI partners that were required to correct deficiencies

found during their preaward surveys, 4 did not do so in accordance with the requirements of their cooperative agreements. Nordic Assistance to Vietnam's letter reporting the correction of identified deficiencies was submitted 3 weeks late, Natural Family Planning Center of Washington, DC, did not address its identified deficiencies, and neither the agreement officer nor her staff could produce any response from Ajuda de Desenvolvimento de Povo para Povo Mozambique or Reseau Ivoirien des Organisations de PVVIH.

Except for a cooperative agreement awarded to Christian Reformed World Relief Committee, the NPI cooperative agreements stated that the partners must correct deficiencies in their accounting systems identified in their preaward surveys within 180 days of the effective date of the agreements. The 19 agreements also required that partners provide the agreement officer with written notification of the correction of those deficiencies within 180 days of the issuance of the agreement. While ADS 303.2d broadly asserts that agreement officers are responsible for ensuring that USAID exercises prudent management over assistance funds, the OIG concludes that reporting requirements imposed on partners create corresponding management responsibilities for USAID agreement officers or those they designate.

The agreement officer attributed the lack of management of the identified partner deficiencies to misunderstandings within the Office of Acquisition and Assistance. There may have been some uncertainty about who was expected to perform various followup tasks and the monitoring recipient responses.

Not following up on the resolution of deficiencies identified in the preaward surveys could result in some partners not correcting the deficiencies in their accounting systems. If previously identified deficiencies are not corrected, it could result in partners not being able to account for U.S. Government funds.

***Recommendation No. 3:** We recommend that the Office of Acquisition and Assistance agreement officer for the New Partners Initiative obtain written assurances from Ajuda de Desenvolvimento de Povo para Povo Mozambique, Natural Family Planning Center of Washington, DC, and Reseau Ivoirien des Organisations de PVVIH that the deficiencies identified in their respective preaward surveys have been corrected.*

Automated Directives System Should Include a Standard Form for Preaward Surveys for Noncontract Awards

Nineteen initial preaward surveys of NPI partners were conducted to determine whether their accounting systems met the minimum requirements contained in 22 CFR pt. 226. Twelve were conducted by USAID's Office of Acquisition and Assistance's Cost, Audit, Support Division/Contract Audit Management (CAM), 6 by USAID missions in Ghana, Mozambique, Thailand, and Zambia, and 1 by the Defense Contract Audit Agency (DCAA). The six preaward surveys performed by USAID missions did not involve the use of Standard Form (SF)-1408, *Pre-Award Survey of Prospective Contractor – Accounting System*.

The SF-1408 helps agreement officers determine whether a prospective recipient's accounting system meets the accounting requirements of 22 CFR pt. 226. The SF-1408 contains two sections to be completed by the surveying team. First, a checklist based on accounting requirements is used to evaluate the partner's accounting system. For example, some of the evaluation items prompt a determination as to whether the partner's accounting system can adequately accumulate and segregate costs as allowable, unallowable, direct, and indirect; identify costs by contract; and accumulate costs under general ledger control. After the accounting requirements have been assessed, the form is marked accordingly—yes, no, or not applicable—to document that the requirements have been evaluated. Second, in the next section, the survey team must consider one of three recommendations regarding the recipient's accounting system: (1) acceptable, (2) acceptable—with a recommendation that a followup review on the accounting system be performed, or (3) unacceptable.

Thirteen NPI preaward surveys performed by CAM and DCAA used SF-1408⁵ to evaluate the nongovernmental partners' accounting systems. The branch chief of CAM said that his staff routinely uses a modified⁶ SF-1408 to evaluate the sufficiency of a partner's accounting system. Even though the title of the form includes the word "contractor," its design and use are applicable to other entities such as nongovernmental organizations that are a party to an assistance award, because no other specific form exists. Accordingly, the OIG concludes that the use of the SF-1408 is standard practice and is appropriate for the evaluation of NPI partners.

USAID's ADS did not require that preaward survey teams complete a SF-1408 or a similar standard form. Additionally, the ADS only directed survey teams to submit their findings to the agreement officer for review, and the ADS did not require survey teams to document which requirements they evaluated. Because the ADS did not provide USAID missions with guidance on the use of the SF-1408, the missions evaluated the NPI partners based on the administrative and financial requirements they deemed appropriate and reported only findings.

The missions' choice not to use the SF-1408 may have compromised their ability to obtain reasonable assurance that an NPI partner's accounting system was adequate to control and safeguard USAID resources. One preaward survey report did not indicate that the mission had evaluated whether the partner's accounting system could differentiate between direct, indirect, allowable, and unallowable costs. Another preaward survey performed by a mission did not report whether the partner had developed a timekeeping and labor distribution system to document and support compensation for personnel services, such as salaries and wages. Had the SF-1408 been used, it would have been apparent that these matters were reviewed and documented. Without SF-1408 guidance, preaward survey teams might overlook or not document critical accounting areas that need to be reported.

⁵ For consistency, we will use the term SF-1408 when discussing the standard template to evaluate a prospective recipients accounting system, although DCAA used SF-1408 and OAA/CAS/CAM used a modified SF-1408.

⁶ The modified SF-1408 substituted contract award information and standards for noncontract award information and standards. The modified SF-1408, "Pre-award Survey for Non-Profit Organization's Accounting System Adequacy," includes the Cost Principles for Non-Profit Organizations (Office of Management and Budget's Circular A-122) and other applicable regulations for nongovernmental organizations.

Although all six of the preaward surveys performed by the USAID missions made recommendations to improve the accounting systems of NPI partners, only two of the preaward surveys recommended a followup review to ensure that the recommendations were implemented. In comparison with the other survey teams, which used the SF-1408 and revealed the same or similar deficiencies in the partners accounting system, 11 of 13 recommendations included a followup review. The two survey teams that used the SF-1408 but did not recommend a followup review indicated in the survey narrative that the recipient had made the necessary revisions. Had the USAID missions used the SF-1408, they would have been prompted with the option to recommend a followup review on the partner's accounting system to ensure that corrective action was taken. Without being prompted by the SF-1408 to recommend a followup review on a deficiency, missions were less likely to make such a recommendation, and deficiencies in NPI partner accounting systems could go uncorrected.

Recommendation No. 4: *We recommend that the director of the Office of Acquisition and Assistance devise a form based on the Standard Form-1408 to be used in conducting preaward surveys for awards other than contracts.*

Recommendation No. 5: *We recommend that the director of the Office of Acquisition and Assistance amend the Automated Directives System 303.3.9 to encourage the use of a Standard Form-1408 or a modified Standard Form-1408 for preaward surveys, so that preaward surveys will provide sufficient assurances about what the survey reviewed and will prompt, if warranted, a followup review of recommended improvements to the partner's accounting system.*

Partners Need Better Guidance on Work Plans

The initial work plan submissions by NPI partners deviated from the work plan template provided by the cognizant technical officer (CTO). Based on OIG testing, 13 of the initially submitted work plans did not contain planned activities and performance benchmarks delineated by calendar quarter and linked to program goals and objectives. Similarly, less than half contained an overall presentation in accordance with the template. Only three provided all of components of the template's six principal sections and their subsections. However, no single work plan section or subsection was omitted in more than 30 percent of the initial submissions.

Each cooperative agreement required that, within 30 days of the signing, the partners must submit an annual work plan for Year 1 (the first year) of the agreement, showing the planned activities and performance benchmarks, delineated by each calendar quarter, and linked to program goals and objectives. The agreements also noted that a work plan template would be provided by the designated CTO.

The work plan template the CTO gave to the partners did not provide guidance on all work plan sections and subsections, and the CTO agreed that the template should have provided greater clarity about what was expected. Additionally, the cooperative agreement's assertion that work plans "may be required to be developed with

consultation by the USG Country Team” may have led some partners to believe that they need only submit a working draft, as USAID staff would assist them in correcting it.

Because of deficiencies in the first year’s work plans, USAID did not approve some of the NPI partner work plans until 5 months into the first year’s shortened, 10-month year.⁷ For 12 partners, about 7 months of the year passed before they were approved, and 1 had not been approved at the beginning of the eighth month. This means that no partner work plan was accepted until half of the year to which it applied had elapsed. It is also notable that the Office of HIV/AIDS, mission, and other technical staff devoted a substantial amount of time and effort to correct incomplete and deficient work plans.

Recommendation No. 6: *We recommend that the Office of HIV/AIDS revise its work plan template for the New Partners Initiative partners so that it contains guidance on how to prepare all work plan sections and subsections, and that it communicates that the work plan submissions must be complete, correct, and ready for USAID approval when due.*

Partners Need Better Guidance on Program Reporting

Ten⁸ NPI partners’ semiannual performance reports did not contain program information that is required by regulation cited in the cooperative agreements. Specifically, 10 NPI semiannual reports had 2 types of deficiencies: reports (1) did not contain reasons why established goals were not met and/or (2) did not contain information about program goals and objectives established for the period.

Nineteen NPI partners were required to submit their first semiannual performance report by April 30, 2007, to document their program achievements, goals, and objectives, as well as reasons why their goals were not met. All 20 cooperative agreements stated that program reports shall be in keeping with 22 CFR pt. 226. Section 226.51 of title 22 of the CFR describes the requirements that generally should be contained in program performance reports, including “a comparison of actual accomplishments with the goals and objectives established for the period...” or if appropriate, “reasons why established goals were not met.” Additionally, the regulations cite “other pertinent information including, when appropriate, analysis and explanation of cost overruns.”

To assist the partners in completing their semiannual performance reports, the Office of HIV/AIDS distributed a template. The template required partners to provide details about their program activity, including startup activities; preaward conditions; technical assistance; and achievements, success, and challenges. Because the template did not require details about goals and objectives and reasons why they were not met, the partners might not have included this information. The Office of HIV/AIDS stated in the template that “If there is a template provided by the country team – it is permissible to submit the same report to the cognizant technical officer in Washington.” This guidance

⁷ The initial 20 NPI awards to the 19 NPI partners were made December 1, 2006. Accordingly, their first year includes only the 10 months from December 1, 2006, through September 30, 2007.

⁸ Additionally, one partner did not submit its semiannual performance report to provide the program information required by the regulation.

suggested that partners had an option to report their program performance, an option that was not in the requirements contained in the cooperative agreement.

With a false impression of what NPI partners must include in their semiannual performance reports, partners may continue to submit incomplete reports. This could create inefficiencies by prompting the Office of HIV/AIDS to embark on what could be a lengthy process of working with partners to correct deficient reports, as occurred with NPI partner work plans. Additionally, the continued submission of incomplete semiannual performance reports could leave Office of HIV/AIDS program managers unaware of programmatic successes and any matters needing correction.

Recommendation No. 7: *We recommend that the Office of HIV/AIDS revise its guidance for the New Partners Initiative partners on semiannual performance reports to ensure that the guidance is consistent with the program reporting requirements contained in the New Partners Initiative cooperative agreements.*

Partners Need Guidance on Written Procedures for Unallowable Costs

Of the 19 preaward surveys conducted on NPI partners, 13 partners lacked written procedures to determine the reasonableness, allocability, and allowability of costs, in accordance with 22 CFR pt. 226. Additionally, two preaward surveys did not clearly indicate whether the partners had written procedures to determine the reasonableness, allocability, and allowability of costs.

Section 226.21 of title 22 of the CFR discusses standards for financial management systems. In particular, 22 CFR § 226.21(b)(6) specifically says that a recipient's financial management system shall provide "written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award."

NPI identifies and awards cooperative agreements to organizations with little or no experience working with the U.S. Government. Consequently, the partners may not have been familiar with U.S. Government regulations and may not have known about the standards for financial management systems.

Fifteen partners whose preaward surveys could not identify written procedures to determine the reasonableness, allocability, and allowability of costs pose a risk to USAID. Without these written procedures in place, USAID funds are susceptible to unintentional errors, misappropriation, or even fraud. The lack of these procedures could prove detrimental to the sustainability of a partner's program and the progress of NPI. Therefore, these vulnerabilities could compromise the intended use of USAID funds and overall success of NPI.

Recommendation No. 8: *We recommend that the Office of HIV/AIDS, in collaboration with the Office of Acquisition and Assistance for the Bureau for Global Health, devise technical guidance for New Partners Initiative partners on developing written procedures to determine the reasonableness, allocability, and allowability of costs.*

Partners Need Guidance on Maintaining Source Documentation

The preaward surveys performed on the initial 19 NPI partners reported that 14 of 19 partners did not maintain adequate source documentation. Source documentation includes, but is not limited to, evidence that recorded costs are traceable to original receipts, invoices, and timesheets for labor costs. Specifically, 14 partners were unable to produce documentation detailing their employees' total labor hours associated with appropriate cost objectives. Additionally, three partners did not have adequate supporting documentation for expenses incurred.

Title 22, pt. 226 of the CFR, cited in the NPI cooperative agreements, specifies in section 226.21(b)(7) that recipients' financial management systems shall provide that "accounting records, including cost accounting records, are supported by source documentation." Section 226.27 of title 22 of the CFR refers to "cost principles applicable to the entity incurring the costs" and 2 CFR pt. 230, appendix B, paragraph 8.m(1), requires, "charges to awards for salaries and wages... be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports...."

Because NPI identifies and awards cooperative agreements to organizations with little or no experience working with the U.S. Government and its regulations, the new partners may not have known about U.S. Government requirements relating to the need for source documentation.

Without source documentation, the partner's accounting system provides no assurance that USAID-provided funds were spent in accordance with the agreement and in furtherance of its program objectives. Furthermore, unsupported costs may not be charged to the award, as this could jeopardize the potential viability of any NPI partner program.

***Recommendation No. 9:** We recommend that the Office of HIV/AIDS, in collaboration with the Office of Acquisition and Assistance for the Bureau for Global Health, provide technical guidance for the New Partners Initiative partners on how to maintain adequate source documentation.*

Partners Need Guidance on Completing the Standard Form-269

Standard Form (SF)-269 is commonly referred to as a financial status report. All 20 NPI cooperative agreements required that partner financial reports "shall be in keeping with 22 CFR Part 226" and that the reports shall be submitted quarterly. Section 226.21(b)(1) of title 22 of the CFR required the NPI partners' SF-269s to provide "accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program...." Accordingly, as an administrative requirement, the NPI partners are accountable for timely submission of an accurate and complete SF-269.

Eight NPI partners did not properly disclose correct financial information when they submitted their first SF-269s for the quarter ending December 31, 2006. The initial submissions contained mistakes, such as omitted values and inaccuracies in citing when USAID-provided funds were received. Some partners received funds in the second quarter but reported them as received in the first quarter.

Because NPI identifies and awards cooperative agreements to organizations with little or no experience of working with the U.S. Government, the partners may not have been familiar with how to complete SF-269.

To correct the mistakes, many e-mails were exchanged between the Office of HIV/AIDS and the partners. Specifically, the Office of HIV/AIDS reviewed and addressed each of the eight partners' initially submitted SF-269s and revised versions individually. This was a time-consuming process because it involved repeated communications between the Office of HIV/AIDS and the partner. Finally, the Office of HIV/AIDS provided the partners with a PowerPoint presentation to explain how the SF-269 should be completed. We are making the following recommendation to prevent a repetition of this inefficient process.

Recommendation No. 10: *We recommend that the Office of HIV/AIDS, in consultation with the Office of the Chief Financial Officer, devise Standard Form-269 training materials for New Partners Initiative partners.*

EVALUATION OF MANAGEMENT COMMENTS

The Office of HIV/AIDS and the Office of Acquisition and Assistance agreed with the recommendations in the draft audit report, and described the actions planned and taken to address our concerns. As a result, we conclude that final action has been taken on six recommendations and that management decisions have been reached on four.

To address Recommendation No. 1, the Office of HIV/AIDS met with the Bureau for Global Health's assistant administrator on November 7, 2007, to discuss management and staffing requirements. Accordingly, final action has been reached for this recommendation.

To address Recommendation No. 2, the Office of HIV/AIDS has communicated its intentions relative to where partners would best be managed, and the office intends to do so again. Accordingly, final action has been reached for this recommendation.

To address Recommendation No. 3, the Office of Acquisition and Assistance has begun to respond to the recommendation and did not request closure of the recommendation. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 4, the Office of Acquisition and Assistance has devised a form based on the SF-1408, so final action has been reached for this recommendation.

To address Recommendation No. 5, the Office of Acquisition and Assistance has devised a plan to revise ADS 303.3.9. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 6, the Office of HIV/AIDS has revised and distributed its work plan template. Accordingly, final action has been reached for this recommendation.

To address Recommendation No. 7, the Office of HIV/AIDS has revised and distributed its guidance for semiannual performance reports. Accordingly, final action has been reached for this recommendation.

To address Recommendation Nos. 8 and 9, the Office of HIV/AIDS has requested that its technical assistance provider develop guidance for partners. Accordingly, a management decision has been reached for these recommendations.

To address Recommendation No. 10, the Office of HIV/AIDS has worked with the Office of the Chief Financial Officer to devise training materials on completing the SF-269. Accordingly, final action has been reached for this recommendation.

Management comments are included in their entirety in appendix II.

SCOPE AND METHODOLOGY

Scope

This audit was conducted by the Office of Inspector General in accordance with generally accepted government auditing standards. The first of two objectives of the audit was to assess how the New Partners Initiative (NPI) impacts USAID workload and in-country efforts in 15 of the President's Emergency Plan for AIDS Relief (PEPFAR) focus countries to increase the number of nongovernmental partners to help achieve prevention and care goals. To answer this question, the audit team asked country-team personnel in all 15 focus countries whether the awards are having an impact on mission PEPFAR efforts. The team did not receive a response from the staff involved with one focus country, Côte d'Ivoire.

The audit's second objective was to determine whether the initial 19 partners receiving awards under NPI have the capacity to comply with certain USAID administrative requirements.⁹ Representatives of the Office of HIV/AIDS indicated that they hoped the audit would identify vulnerabilities that the new initiative may create for USAID.

In planning and performing the audit's second objective, the audit team identified and reviewed internal controls related to administrative requirements contained in USAID's initial 20 NPI cooperative agreements signed on December 1, 2006. The team tested demonstrated partner performance in meeting the administrative requirements and reviewed Agency assessments of the partners. In doing so, the team reviewed the 20 cooperative agreements; documents related to financial reporting; accounting, program reporting; cost sharing; debarment; work plans; Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism"; preaward surveys; and the partner capacity assessment report. The team interviewed Bureau for Global Health and Office of Acquisition and Assistance personnel, but did not contact the NPI partners or verify their financial or performance data submissions. The team typically reviewed the initial submissions of partner documents, although it tempered those assessments by determining whether or not the Agency subsequently accepted partner-made corrections. In cases in which Agency officials could not produce requested documents, the team assumed that they had not been submitted by the partner and set June 30, 2007, as a cut-off date. Accordingly, some partners could have made substantial improvements subsequent to the team's testing.

Audit fieldwork was conducted at USAID's headquarters in Washington between March 29 and September 12, 2007. When signed, the initial 20 NPI awards amounted

⁹ During the exit conference, the Office of HIV/AIDS and the Office of Acquisition and Assistance for the Bureau for Global Health explained that NPI partner Youth Health Organization was reassigned to USAID on July 24, 2007. Since the Office of Acquisition and Assistance for the Bureau for Global Health originally stated that the partner's cooperative agreement and responsibility for it was transferred to another agency, this audit did not test, consider, or include the Youth Health Organization in any results or reviews. Furthermore, the partner was reassigned to USAID subsequent to the June 30, 2007, cut-off date for receiving information.

to about \$71 million (\$15 million of which was cost sharing), although no USAID funds had been disbursed through those awards as of December 31, 2006.

Methodology

To address the first audit objective, the audit team, in coordination with Office of HIV/AIDS staff, devised a questionnaire for USAID personnel in the 15 focus countries to gather insight about the impact that NPI is having on their workload and in-country programs to increase the number of new indigenous nongovernmental partners. Results of the survey were compiled, analyzed, and reported.

To answer the second audit objective, the audit team selected administrative terms of the 20 cooperative agreements.¹⁰ Based on the information, the audit team judgmentally selected standards within those terms useful for testing. The team devised tests and applied a subjective scoring methodology to the test questions.

With the assistance of a statistician, the team established that individual partners' test results above a statistical threshold of 80 percent indicated their capacity to comply with USAID administrative requirements. Additionally, the team determined the audit threshold criteria as follows:

1. If at least 17 of 19 partners' test results indicated capacity to comply with USAID administrative requirements, the answer to the audit objective would be that the partners had the capacity to comply with selected USAID administrative requirements.
2. If 16 of 19 partners' test results indicated capacity to comply with USAID administrative requirements, the answer to the audit objective would be that the partners had some capacity to comply with selected USAID administrative requirements.
3. If fewer than 16 partners' test results indicated capacity to comply with USAID administrative requirements, the answer to the audit objective would be that the partners were unable to comply with selected USAID administrative requirements.

The audit team established these threshold criteria to assist in answering the audit objective, but it also applied auditor judgment in making its overall conclusion. For example, the team considered other factors such as the perspectives of Agency personnel and subsequent partner efforts to comply with the administrative requirements.

¹⁰ One partner, Geneva Global, was awarded two cooperative agreements.

MANAGEMENT COMMENTS



U. S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

TO: IG/A/PA, Steven H. Bernstein

FROM: GH/OHA, S. Ken Yamashita
M/OAA/OD, Maureen Shauket

SUBJECT: Management's Response to draft Audit of USAID's New Partners Initiative Created Under the President's Emergency Plan for AIDS Relief

Thank you for the opportunity to respond to the draft audit report on the Agency's implementation of the New Partners Initiative (NPI) established through the President's Emergency Plan for AIDS Relief (PEPFAR). Management has reviewed carefully the recommendations and has taken, or will take, the following actions in response.

Recommendation 1: We recommend that the Office of HIV/AIDS meet with the Assistant Administrator of the Bureau for Global Health to encourage an assessment of whether or not the allocated resources in each focus country are sufficient to support and manage the workload imposed by the New Partners Initiative.

Management Decision: The Office of HIV/AIDS (OHA) concurs with the recommendation. Even before the results of this audit, the Assistant Administrator for Global Health called for a review of

staffing in the field as well as in Washington and has approached the OGAC coordinator for additional funding to support additional staff requirements associated with implementing PEPFAR. On November 7, 2007 OHA met again with the Assistant Administrator to provide an update on the management and staffing requirements of PEPFAR including management of NPI. In addition, the headquarters review of the annual country operational plans (COPS) for FY 08 submitted by the 15 focus countries includes an assessment of the actual and proposed management and staffing resources allocated to implementing PEPFAR, including the workload imposed by NPI. In reviewing the management and staffing plans submitted as part of the FY 2008 COPS, OHA will include an assessment of the adequacy of the Mission's staffing resources available to support all PEPFAR activities including NPI and will include any recommendations for additional staff as part of the formal feedback to the field.

On this basis, we kindly request that the recommendation be closed upon issuance of the final audit report.

Recommendation 2: We recommend that the Office of HIV/AIDS communicate its intentions to focus countries technical offices about where New Partners Initiative partners would be best managed-at Washington headquarters or the country level.

Management Decision: OHA concurs with the recommendation. OHA believes that field missions are in the best position to manage NPI partners where the programs are being implemented except for those partners implementing multi-country projects. In cases where an NPI partner has activities in multiple countries, OHA believes that management is more appropriately located in OHA. Upon award, each mission was asked if they were willing and capable of assuming full responsibility for the NPI agreements in their countries but few accepted the offer. (See attachment 1) As a result, OHA has retained management responsibility for most of the NPI grantees. However, in all cases, the missions identified a local activity manager to serve as the primary point of contact for NPI. As a follow-up, the Director of OHA will communicate to all focus countries with NPI partners the preference for in-country management of NPI agreements but that OHA will continue to manage the agreements in cases where the field

declines to assume responsibility and for grantees operating in multiple countries.

On this basis, we kindly request that the recommendation be closed upon issuance of the final audit report.

Recommendation 3: We recommend that the Office of Acquisition and Assistance Agreement Officer for the New Partners Initiative obtain written assurances from ADPP Mozambique, Natural Family Planning Center of Washington, DC and Reseau Ivorien des Organisations de PVVIH, which of the deficiencies identified in their respective pre-award surveys have been corrected.

Management Response: OAA concurs with the recommendation. OAA has performed a follow-up survey on Natural Family Planning Center (NFPC) of Washington, DC. The survey highlighted several deficiencies which were not corrected from the initial survey. NFPC's cooperative agreement will be modified to allow a further six months to correct deficiencies identified in the follow-up survey. In regard to ADPP Mozambique, Natural Family Planning Center of Washington, DC and Reseau Ivorien des Organisations de PVVIH, M/OAA received correspondence from those organizations addressing the concerns from their respective pre-award surveys. Therefore, M/OAA requests that the portions of Recommendation 3 dealing with these organizations be closed.

Recommendation 4: We recommend that the Director of the Office of Acquisition and Assistance devise a form based on the Standard Form-1408 to be used in conducting pre-award surveys for award other than contracts.

Management Response: OAA concurs with the recommendation. We have an adaptation of the SF 1408 form that is in use for assistance awards.

On this basis, we kindly request that the recommendation be closed upon issuance of the final audit report. (See attachment 3)

Recommendation 5: We recommend that the Director of the Office of Acquisition and Assistance amend the Automated directives system's

Chapter 303.3.9 to encourage the use of a Standard Form-1408 or a modified Standard Form-1408 for pre-award surveys, so that pre-award surveys will provide sufficient assurances about what the survey reviewed and will prompt, if warranted, a follow-up or recommended improvements to the partner's accounting system.

Management Response: OAA concurs with the recommendation. OAA's Policy Division and CAM Branch will work together to amend the appropriate ADS chapters. This action will be concluded by June 30, 2008.

Recommendation 6: We recommend that the Office of HIV/AIDS revise its work plan template for the New Partners Initiative partners so that it contains guidance on how to prepare all work plan sections and subsections and that it communicates that the work plan submissions must be complete, correct and ready for USAID approval when due.

Management Response: OHA concurs with the recommendation. OHA has revised its work plan template for NPI partners to include guidance on how to prepare all work plan sections and subsections and has communicated the updated template to all NPI partners. The communication indicates OHA's expectation that all work plans will be complete, correct and ready for approval by the designated due date. (See attachment 4) In addition, the NPI technical assistance partner, Academy for Educational Development (AED), has included in its work plan training and assistance for NPI partners in work plan preparation. (See attachment 5)

On this basis, we kindly request that the recommendation be closed upon issuance of the final audit report.

Recommendation 7: We recommend that the Office of HIV/AIDS revise its guidance for the New Partners Initiative partners on semi-annual performance reports to ensure that the guidance is consistent with the program reporting requirements contained in the New Partner Initiative cooperative agreements.

Management Response: OHA concurs with the recommendation. OHA has revised its guidance to NPI partners on semi-annual

performance reports and provided partners with a template that they can use in submitting performance reports that captures the information required by PEPFAR. (See attachment 6)

On this basis, we kindly request that the recommendation be closed upon issuance of the final audit report.

Recommendation 8: We recommend that the Office of HIV/AIDS, in collaboration with the Office of Acquisition and Assistance for the Bureau of Global Health, devise technical assistance guidance for New Partner Initiative partners on developing written procedures to determine the reasonableness, allocability and allowability of costs.

Management Response: OHA concurs with the recommendation. OHA has requested its NPI technical assistance (TA) provider, AED, to develop guidance for NPI partners on developing written procedures to determine the reasonableness, allocability and allowability of costs. The TA provider has included this task as a priority activity in its first year work plan. Once the Office of Acquisition and Assistance (OAA) has reviewed and concurred with the guidance, OHA will communicate the guidance to the partners and AED will offer training and TA to NPI partners in its use. OHA expects to complete action on this recommendation by March 31, 2008.

Recommendation 9: We recommend that the Office of HIV/AIDS, in collaboration with the Office of Acquisition and Assistance for the Bureau of Global Health, provide technical guidance for the New Partners Initiative partners on how to maintain adequate source documentation.

Management Response: OHA concurs with the recommendation. OHA has requested its NPI technical assistance provider, AED, to develop guidance for partners on how to maintain adequate source documentation. The TA provider has included this task as a priority activity in its first year work plan. Once the Office of Acquisition and Assistance (OAA) has reviewed and concurred with the guidance, OHA will communicate the guidance to the partners and AED will offer training and TA to NPI partners in its use. OHA expects to complete this action by March 31, 2008.

Recommendation 10: *We recommend that the Office of HIV/AIDS, in consultation with the Office of the Chief Financial Officer, devise Standard Form-269 training materials for New Partner Initiative partners.*

Management Response: OHA concurs with the recommendation. OHA has worked with the Office of the Chief Financial Officer in devising training materials on completing Standard Form-269. (See attachment 7 for office of CFO approval of SF-269 training material).u In addition, the Office of HIV/AIDS has requested that its NPI technical assistance partner, AED, implement a training program for NPI partners using these materials as a priority activity in its first year of operation. (See attachment 8)

Based on the information provided in the management response and the additional documentation provided management requests that the following recommendations be closed with the issuance of the audit: Recommendations 1, 2, 4, 6, 7, and 10.

We appreciate the IG's continued commitment to improve the operation of USAID as a critical partner in implementing the President's Emergency Program.

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