

# USAID

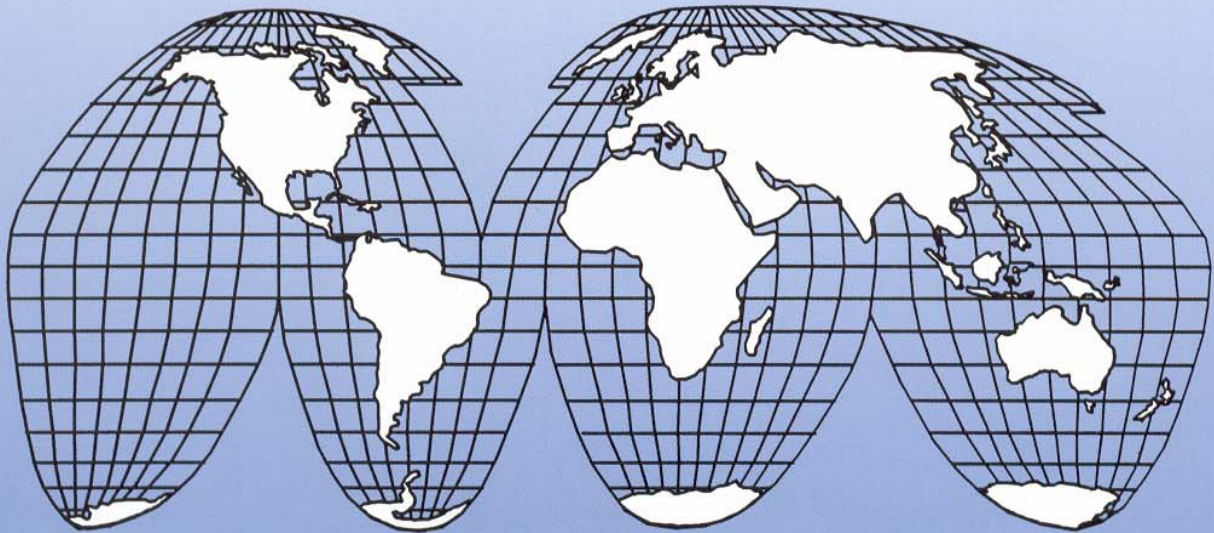
## OFFICE OF INSPECTOR GENERAL

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### Audit of Management Activities of USAID/Nicaragua's Cognizant Technical Officers

Audit Report No. 1-524-05-004-P

January 26, 2005



San Salvador, El Salvador





January 26, 2005

## **MEMORANDUM**

**FOR:** USAID/Nicaragua Director, James Vermillion

**FROM:** RIG/San Salvador, Steven H. Bernstein “/s/”

**SUBJECT:** Audit of Management Activities of USAID/Nicaragua’s Cognizant Technical Officers (Report No. 1-524-05-004-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included your response in Appendix II.

This report contains four recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

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## Summary of Results

The Regional Inspector General/San Salvador conducted this audit to determine if USAID/Nicaragua's Cognizant Technical Officers (CTOs) were managing implementation activities in accordance with USAID policies (page 6).

USAID/Nicaragua's Cognizant Technical Officers were managing implementation activities in accordance with USAID policies for 11 of 15 selected activities. USAID/Nicaragua's CTOs should improve management of four activities which included reviewing indirect cost rates annually, conducting regular site visits, preparing variance analyses, and evaluating recipient's program effectiveness at the end of the project (page 6).

We made four recommendations to address the items discussed in this report. We recommended that USAID/Nicaragua (1) provide training to CTOs to better understand the process of reviewing provisional and final/actual indirect cost rates; (2) establish a site visit plan for each award; (3) provide training to CTOs on performing variance analyses of performance and financial results; and (4) establish a procedure to ensure that CTOs prepare final evaluations of recipient's program effectiveness at the end of the project for grants and cooperative agreements (pages 9-14).

USAID/Nicaragua agreed with the findings and recommendations presented in this report (page 17).

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## Background

Many people participate in USAID's acquisition and assistance (A&A) process to procure goods and services. To ensure that USAID implements this process efficiently and effectively, program managers need to be aware of and held accountable for performing numerous A&A responsibilities.

While contracting officers and assistance officers may be the most visible members of a successful A&A workforce, USAID's many Cognizant Technical Officers (CTOs) also have a critical role. The term *Cognizant Technical Officer* is used by USAID in lieu of the other U.S. government terms such as *contracting officer's technical representative* or *contracting officer's representative* and denotes that CTOs can be responsible for grants as well as contracts. The purpose of CTOs is to act as the contracting officers' technical representatives to ensure that awardees are accomplishing desired objectives in accordance with U.S. laws and with USAID policies and procedures.

Contracting officers designate members of strategic objective teams as CTOs to perform administrative functions and to provide technical advice on acquisition and assistance awards. The Automated Directives System (ADS) 303.3, 202.3.6, award agreements and CTO designation letters define the actions that Cognizant Technical Officers should take in managing project implementation.

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The audit encompassed the assistance and acquisition instruments of all active Cognizant Technical Officers at USAID/Nicaragua as of the first day of fieldwork, November 1, 2004. There were 10 CTOs and 18 awards with a total value of \$91,461,994 reviewed.

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**Audit Objective**

As part of its fiscal year 2005 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Were USAID/Nicaragua's Cognizant Technical Officers managing implementation activities in accordance with USAID policies?

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

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**Audit Findings** **Were USAID/Nicaragua's Cognizant Technical Officers managing implementation activities in accordance with USAID policies?**

USAID/Nicaragua's Cognizant Technical Officers (CTOs) were managing implementation activities in accordance with USAID policies for 11 of 15 selected activities. USAID/Nicaragua's CTOs should improve management of four activities which included reviewing indirect cost rates annually, conducting regular site visits, preparing variance analyses, and evaluating recipient's program effectiveness at the end of the project.

For the purposes of this audit, activities identified as CTO responsibilities were found in the Automated Directives System (ADS) 303.3, "Grants and Cooperative Agreements to Non-Governmental Organizations," ADS 202.3.6 "Direct Contracting," the contract terms and conditions stated in the awards, and CTO designation letters. The following is a list of the activities that were performed by the CTOs in managing their implementation activities (there were 10 CTOs and 18 awards reviewed):

- Assuring compliance with the terms and conditions of the award;
- Carrying out all responsibilities as delegated by the Agreement Officer in the schedule of the award or noted under the "Substantial Involvement" section of the cooperative agreement; promptly notifying the Agreement Officer of any developments which could have a significant impact on the award;
- Preparing internal documents to support amendments to the award;
- Approving recipient's work plans;



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- Coordinating with USAID's Office of Security to obtain necessary clearances for awardees and ensures proper return of all badges at end of agreement;
  - Ensuring that all government-furnished property for use under award is properly disposed of or returned to USAID;
  - Receiving appropriate CTO training/certification;
  - Maintaining a CTO file that at a minimum included a copy of the designation letter, copy of the contract, correspondence with contractor, names of technical administrative personnel assisting CTO, copy of records, reports of CTO inspections and receiving/accepting documents;
  - Ensuring that annual financial statement audits were conducted;
  - Carrying-out all responsibilities as delegated by the Agreement Officer in the CTO designation letter; and
  - Approving interim payments.

As noted from the list above, USAID/Nicaragua's CTOs were managing implementation activities in accordance with USAID policies. However, the Mission should improve management activities by having CTOs perform the following activities:

- Ensuring that recipient's provisional indirect cost rates have been adjusted annually to reflect final/actual indirect cost rates;
- Maintaining contact including site visits and liaison with the recipient;
- Reviewing and analyzing all performance and financial reports as well as verifying timely delivery; and
- Evaluating the recipient's program effectiveness at the end of the program and submitting the reports to the Agreement Officer, the Activity Manager, and the Contracting Officer, as appropriate.

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## **Indirect Cost Rate Adjustments Should Be Reviewed**

Summary: According to terms and conditions stated in the agreements of organizations with indirect cost rate provisions and the Negotiated Indirect Cost Rate Agreements established between USAID and those organizations, if the final rate determined was less than the provisional rate, the organization would be required to return the difference to USAID. USAID/Nicaragua's Cognizant Technical Officers (CTOs) had not reviewed the indirect cost rate provisions established in awards to ensure that these rates were adjusted appropriately to reflect final/actual indirect rates during the life of the project. CTOs were not reviewing the provisional indirect cost rates because they were not aware of the Federal Acquisition Regulation requirements and did not fully understand the process for establishing, calculating, and adjusting indirect cost rates. Without careful review of the provisional and final/actual indirect rate adjustments, the CTOs would not be able to ensure that only amounts authorized to the recipients were paid and any refunds due to USAID were received.

The Federal Acquisition Regulation (FAR) 42.703, states that "indirect cost rates [can be] established temporarily for interim reimbursement of incurred indirect costs and adjusted as necessary pending establishment of final indirect cost rates. Establishing final indirect rates [provides] for timely settlement under cost-reimbursement contracts."

According to terms and conditions stated in the agreements of the organizations with indirect cost rate provisions and the Negotiated Indirect Cost Rate Agreements established between USAID and those organizations, USAID's recipients must submit a proposal to establish a final indirect cost rate within six months after its fiscal year end. Billings on awards must be adjusted if the final rate varied from the provisional rate. If the final rate was greater than the provisional rate and there were no funds available to cover the additional indirect costs, the organization would not be able to recover all indirect costs. Conversely, if the final rate was less than the provisional rate, the organization would be required to return the difference to USAID.

Under ADS 202.3.6.1, Cognizant Technical Officers (CTOs) were required to ensure that the contractor performed in accordance with the terms contained in the contract and for approving payments. Therefore, the general duties assigned to CTOs incorporate a review of indirect cost rates because they are both a contractual compliance issue as well as a payment approval issue.

USAID/Nicaragua's CTOs had not reviewed the indirect cost rate provisions established in awards to ensure that these rates were adjusted appropriately to reflect final/actual indirect rates during the life of the project. As part of the contract close-out process, final indirect cost rates were reviewed to ensure

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adjustments were made. However, the adjustments and refunds should not only be part of the close-out process but should also be part of an annual process. Any adjustments and refunds necessary should be requested annually to ensure that these amounts are returned to the agency on a timely basis.

The organizations working with USAID/Nicaragua which had provisional indirect cost rate clauses in the awards were Checchi and Company Consulting, Cooperative for Assistance and Relief Everywhere, Inc., Management Sciences for Health, Michigan State University, WINROCK, Cooperative League of the USA, Florida International University, and Academy for Educational Development.

Prior to the audit, CTOs were not reviewing the provisional indirect cost rates because they were not aware of the FAR requirements and did not fully understand the process for establishing, calculating, and adjusting indirect cost rates. Without careful review of the provisional and final/actual indirect rate adjustments, the CTOs would not be able to ensure that only amounts authorized to the recipients were paid and any refunds due to USAID were received.

**Recommendation No. 1: We recommend that USAID/Nicaragua provide training to Cognizant Technical Officers to better understand the process for reviewing the provisional and final/actual indirect cost rates.**

### **Regular Site Visits Should Be Conducted**

Summary: ADS 303.3 requires CTOs to maintain regular contact including site visits and liaison with the recipient. However, site visits were not conducted for 4 of the 18 recipients and for another four recipients, site visits were rarely conducted, only three times during the award term or 8 to 12 months apart, or less. Site visits were mostly unplanned and conducted when convenient for the CTO. Site visits had not been a priority for some CTOs. Without frequent site visits, the CTOs might not be aware of problems that arise or might not be able to resolve problems timely. Also, without frequent site visits, CTOs may not be able to effectively monitor recipient activities and program progress.

Site visits play an important role in managing projects to gather data on the work practices of recipients, to observe progress towards program objectives, and ensure that program objectives will be met. Through site visits, CTOs can discover first hand from the recipients how the recipients carried out their daily work and where they have encountered problems. The need for conducting site visits is included in ADS 303.3.

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The CTOs maintained frequent, daily or weekly, contact via email or phone with recipients. However, for some recipients, site visits were not conducted regularly. For example, site visits were not conducted at all for four of the 18 recipients. For another four recipients, site visits were rarely conducted, only three times during the award term or 8 to 12 months apart, or less. Site visits were mostly unplanned and conducted when convenient for the CTO. Also, site visits had not been a priority for some CTOs.

To maximize the benefits to be had with site visits and to better manage the progress of implementation activities, site visits should be well planned and conducted more frequently. A site visit plan that includes the following elements could be prepared at the beginning of each project:

- Setting the focus for site visits - what the team wants to achieve; who would be interviewed; and what activities would be examined.
- Planning for site visits - determine how many site visits would be conducted throughout life of award; and time and date of when site visits would be conducted.
- Evaluating data gathered - group data; analyze the data gathered; determine if site visit conducted met goals; determine if any problems need to be resolved; determine if more site visits than initially planned needed; determine if follow-up site visits are necessary; and determine if data gathered supports the progress reports received from the recipients

Without a site visit plan, the CTOs would not be obligated to conduct frequent site visits to monitor recipient activities and program progress. The CTOs might not be aware of problems that arise and ensure that they are resolved timely. Furthermore, without a properly planned site visit, the CTO might not maximize the benefits to be had from site visits.

**Recommendation No. 2: We recommend that USAID/Nicaragua's Cognizant Technical Officers establish a site visit plan for each award that includes (a) setting the focus for the site visit, (b) planning for site visits, and (c) evaluating data gathered.**

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## Variance Analysis of Performance and Financial Results Should Be Performed

Summary: CTOs did not perform a variance analysis of performance results and for financial results, CTOs had not performed variance analyses comparing planned versus actual expenditures. CTOs did not review the obligations, commitments, expenditures, unliquidated balances, or pipeline analyses. According to ADS 303.3, Grants and Cooperative Agreements to Non-Governmental Organizations, CTOs were responsible for “reviewing and analyzing all performance and financial reports as well as verifying timely delivery.” The CTOs were not preparing variance analyses of performance results as they had not recognized the importance of such analysis. For financial results, CTOs relied on the accounting and financial office to perform financial data analysis. Without a variance analysis of the performance results, the CTOs might not identify delays in completing outputs, or problems in output quality, or provide an early warning that results may not be achieved as planned. Also, without collaboration with the accounting and financial office to perform a variance analysis of the financial results, CTOs might not identify potential cost overruns, determine if implementation was more rapid than funds could be made available, or determine if unliquidated obligations were excessive and funds needed to be deobligated.

USAID/Nicaragua’s CTOs reviewed performance and financial results submitted to them by the recipients. The reviews consisted of looking at the results presented in the progress reports and determining, based on those results, if the recipients were on target. However, the CTOs did not perform a variance analysis of the performance results to determine if the actual results as compared to planned results indicated that the recipients were indeed on target and able to meet overall program objectives within the time frame established. For financial results, the CTOs had reviewed financial data to determine monthly accruals, but they had not performed variance analyses comparing planned versus actual expenditures. CTOs did not review the obligations, commitments, expenditures, unliquidated balances, or pipeline analysis. This function was performed by the accounting and financial office.

According to ADS 303.3, Grants and Cooperative Agreements to Non-Governmental Organizations, CTOs were responsible for “reviewing and analyzing all performance and financial reports as well as verifying timely delivery.” ADS 303.3.7.3 continues by suggesting that a comparison of planned versus actual results is a valuable means of tracking the progress of an instrument, activity, or strategic objective. Variations between the planned and actual results may mean that there is a potential overrun, that the implementation schedule has slipped and targets may not be met, or that planned outputs and results may have to be modified. Conversely, variations could indicate that implementation is more rapid than funds can be made available. For inputs that are interrelated, as in the

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case of a construction activity that must be completed before certain equipment should be delivered, this analysis might indicate that purchase of certain equipment should be delayed. Also, when the CTOs compare actual to planned expenditures, they should note whether the unliquidated obligations balance has become excessive or is no longer needed for its original purpose and deobligate the funds accordingly.

The CTOs were not preparing variance analyses of performance results as they had not recognized the importance of such analysis. The CTOs considered the reviews that they had conducted to be sufficient to monitor the progress of the programs. For financial results, the CTOs had not focused on financial data analyses, with the exception of preparing quarterly accruals. They relied on the accounting and financial office to perform financial data analysis. Although the accounting and financial office had the background to provide assistance with financial data, they did not have the project and recipient knowledge that were required to make financial decisions. Comparisons of planned versus actual results to determine if potential cost overruns would occur, if implementation was more rapid than funds could be made available, or if unliquidated obligations were excessive and funds needed to be deobligated, are analyses that need to be performed by the CTO with the assistance of the accounting and finance office.

Monitoring the quality and timeliness of outputs produced by implementing organizations should be a major task and responsibility for the CTOs. Without a variance analysis of the performance results, the CTOs might not identify delays in completing outputs, or problems in output quality, or provide an early warning that results may not be achieved as planned. Early action in response to problems is essential in managing for results. Without collaboration with the accounting and financial office to perform a variance analysis of the financial results, the CTOs might not identify potential cost overruns, determine if implementation was more rapid than funds could be made available, or determine if unliquidated obligations were excessive and funds needed to be deobligated.

**Recommendation No. 3: We recommend that USAID/Nicaragua provide training to Cognizant Technical Officers on performing variance analyses of performance and financial results.**

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## **Recipient's Program Effectiveness Should Be Evaluated at End of Program**

Summary: According to ADS 303.3, CTOs should be responsible for “evaluating the recipient’s program effectiveness at the end of the program and submitting a final report to the Agreement Officer and the Activity Manager.” CTOs had not prepared evaluations at the end of the programs as required by ADS 303.3. Also, none of the 10 CTOs reviewed had submitted a final report to the Agreement Officer and the Activity Manager evaluating the recipient’s program effectiveness at the end of the program for completed projects of grants and cooperative agreements. The CTOs were not aware of their responsibility for preparing and submitting such evaluations at the end of the programs, and USAID/Nicaragua’s management had not requested these evaluations. Without final evaluations of the awardees, USAID might not conduct procurements efficiently and might not be able to provide USAID recipients with useful feedback.

According to ADS 303.3, CTOs should be responsible for “evaluating the recipient’s program effectiveness at the end of the program and submitting a final report to the Agreement Officer and the Activity Manager.” According to ADS 302.5.9, “it is USAID policy that contracts in excess of \$100,000, including individual task orders under indefinite quantity contracts, must be evaluated at least annually (for contracts exceeding one year in duration) and on completion of activities, as required by FAR 42.1502.”

The CTOs prepared interim Contractor Performance Reports in accordance with ADS 302.5.9, but had not prepared evaluations at the end of the programs as required by ADS 303.3 and 302.5.9. Also, none of the 10 CTOs reviewed had submitted a final report to the Agreement Officer and the Activity Manager evaluating the recipient’s program effectiveness at the end of the program for completed projects of grants and cooperative agreements.

According to a USAID/General Policy on Contractor Performance Reports, dated December 8, 2004, Contractor Performance Reports provide a retrievable record of performance for the Contractor and for government agencies to use as past performance information when assessing the performance risk associated with a specific acquisition during the source selection process. Equally important is the use of Contractor Performance Reports as a management tool in giving the contractor an indication of how the government views its performance during a given period of time. The ability to utilize current Contractor Performance Reports for USAID procurements provides significant efficiency on how USAID conducts procurements and reduces the burden on USAID Contracting Officers and CTOs worldwide from undertaking individual performance reviews for any particular procurement.

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The CTOs were not aware of their responsibility for preparing and submitting such evaluations at the end of the programs, and USAID/Nicaragua's management had not requested these evaluations. Without final evaluations of the awardees, USAID might not conduct procurements efficiently and might not be able to provide USAID recipients with useful feedback.

**Recommendation No. 4: We recommend that USAID/Nicaragua establish a procedure to ensure that Cognizant Technical Officers (a) prepare final evaluations of recipient's program effectiveness at the end of the program for grants and cooperative agreements and (b) submit final evaluation reports to the Agreement Officer.**

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### **Evaluation of Management Comments**

USAID/Nicaragua agreed with the findings and recommendations presented in this report. Accordingly, management decisions were made for the recommendations. USAID/Nicaragua comments are included in their entirety in Appendix II.

Recommendations one, three, and four have been slightly changed from the draft report to reflect management views. Recommendation four excluded reference to contract instruments because the Mission has established a process for ensuring final evaluations for contract instruments upon receiving the USAID/General policy on Contractor Performance Reports issued on December 8, 2004.

Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).



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**Scope and  
Methodology****Scope**

The Regional Inspector General/San Salvador audited the management activities performed by USAID/Nicaragua's Cognizant Technical Officers (CTOs) in accordance with generally accepted government auditing standards at USAID/Nicaragua from November 1, 2004 to November 5, 2004 and from November 15, 2004 to November 18, 2004.

In planning and performing the audit, we obtained an understanding of internal control related to CTOs managing of implementation activities. These internal controls consisted of review of monthly and/or quarterly performance and financial reports from the recipients, preparing quarterly accruals, maintaining contact with the recipients, and receiving annual evaluations from their supervisors.

The audit encompassed all active CTOs as of the first day of fieldwork, November 1, 2004. There were 10 CTOs and 18 awards with total value of \$91,461,994 reviewed.

**Methodology**

To answer the audit objective, we interviewed all 10 CTOs at USAID/Nicaragua, the Acting Controller, the Financial Analyst, as well as the Contracting Officer. Our interviews were conducted to determine if the CTOs were performing their CTO responsibilities as required by ADS 303, 202, the grant or contract terms and conditions, and the CTO designation letters.

We reviewed each contract and CTO designation letter to identify CTO responsibilities identified in these documents. Furthermore, we reviewed contract files and CTO files (e.g., recipient performance and financial reports, recipient work plans, recipient audit reports, site visit reports, vouchers approved, property disposition reports, and accrual worksheets) to determine if the CTOs were managing implementation activities in accordance with the requirements of ADS 303, 202, agreement documents, and CTO designation letters.

In determining the significance of our findings, we applied the following criteria for issuing an opinion:

- An unqualified opinion would be issued if the CTOs performed 100 percent of the selected responsibilities required by ADS 303, 202, agreements, and CTO designation letters.

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- A qualified opinion would be issued if the CTOs performed 70 percent to 99 percent of the selected responsibilities required by ADS 303, 202, agreements, and CTO designation letters.
  - An adverse opinion would be issued if the CTOs performed less than 70 percent of the selected responsibilities required by ADS 303, 202, agreements, and CTO designation letters.

**Management  
Comments**

**MEMORANDUM**

**DATE:** January 24, 2005

**TO:** Regional Inspector General/San Salvador, Steven H. Bernstein

**FROM:** USAID/Nicaragua Acting Director, Alexander Dickie

**SUBJECT:** Mission Response to Recommendation Nos. 1-4, Audit Report 1-524-05-00X-P, "Audit of Management Activities of USAID/Nicaragua's Cognizant Technical Officers," dated December 17, 2004

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We appreciate your and your staff's efforts in helping USAID/Nicaragua further improve its operating procedures, ensuring continued full compliance with Agency policies. We are pleased to know that our Mission's Cognizant Technical Officers (CTOs) are managing implementation activities in accordance with USAID policies. The following are our responses for each of the recommendations in the above-referenced audit report.

**Recommendation No. 1: We recommend that USAID/Nicaragua provide training to Cognizant Technical Officers to better understand the process for reviewing the provisional and final/actual indirect cost rates.**

USAID/Nicaragua agrees with the recommendation. To address this recommendation, the Mission will provide training on reviewing the provisional and final/actual indirect costs rates for all CTOs.

Estimated completion date: July 31, 2005

**Recommendation No. 2: We recommend that USAID/Nicaragua's Cognizant Technical Officers establish a site visit plan for each award that includes (a) setting the focus for the site visit, (b) planning for site visits, and (c) evaluating data gathered.**

USAID/Nicaragua concurs with this audit recommendation, and proposes the following actions:

The Mission will issue a Mission Order that establishes procedures for preparing site visit plans, and a standard reporting form will be developed. All CTOs will be required to develop such plans for each award. The plan, which will be updated at least semi-annually, will include: a) a

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description of the focus and purpose of each visit; b) the number of site visits planned throughout the life of award; and c) proposed dates for site visits.

Furthermore, CTOs will be required to evaluate data gathered. The Mission currently requires that travel reports be filed after each in-country site visit. Using this travel report as a base, the Mission will develop an expanded form that includes: a) an analysis of the data gathered; b) a determination whether the site visit met stated goals; c) a description of any problem(s) to be resolved; d) requirements for follow-up field visits; and e) a determination if data gathered supports the progress reports received from the recipients.

A workshop on these new procedures will be conducted to enhance understanding among CTOs, and to encourage standardization of site visit plans and report formats.

Estimated completion date: July 31, 2005

**Recommendation No. 3: We recommend that USAID/Nicaragua provide training to Cognizant Technical Officers on performing variance analyses of performance and financial results.**

USAID/Nicaragua concurs with this audit recommendation. To address this, the Mission will provide training to CTOs on conducting variance analyses of performance and financial results. Such training will include guidance for comparing planned versus actual results of financial and program performance data.

Estimated completion date: July 31, 2005

**Recommendation No. 4: We recommend that USAID/Nicaragua establish a procedure to ensure that Cognizant Technical Officers (a) prepare final evaluations of recipient's program effectiveness at the end of the program for grants and cooperative agreements and (b) submit final evaluation reports to the Agreement Officer.**

USAID/Nicaragua concurs with this recommendation. To address this, the Mission will issue a Mission Order establishing procedures for CTOs to evaluate the recipient's program effectiveness at the end of the award (for grants and cooperative agreements). A final report will be submitted to the Agreement Officer.

The final evaluation will be similar to the Contractor Performance Report, but may include other pertinent information, as necessary, to adequately describe the performance and effectiveness of the recipient. An evaluation report form will also be developed to standardize reporting.

Estimated completion date: July 31, 2005

We are providing our comments in two formats: an unsigned Microsoft Word file and a signed copy in Acrobat PDF file. Please let me, or Cynthia Pruet, the Mission's Audit Action Officer, know if you have questions or need further information.