



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/WEST BANK GAZA'S
OVERSIGHT OF RESOURCES MANAGED
BY AMERICAN NEAR EAST REFUGEE
AID UNDER COOPERATIVE AGREEMENT
294-A-00-02-00229-00

AUDIT REPORT NO. 6-294-05-004-P
July 6, 2005

CAIRO, EGYPT



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

July 6, 2005

MEMORANDUM

TO: Mission Director, USAID/West Bank and Gaza, James A. Bever

FROM: Acting Regional Inspector General/Cairo, Catherine Trujillo /s/

SUBJECT: Audit of USAID/West Bank Gaza's Oversight of Resources Managed by American Near East Refugee Aid Under Cooperative Agreement 294-A-00-02-00229-00 (Audit Report No. 6-294-05-004-P)

This memorandum transmits our final report on the subject audit. This report does not include any recommendations for USAID/West Bank and Gaza's action.

I want to express my sincere appreciation for the cooperation and courtesy extended to RIG/Cairo staff during the audit.

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SUMMARY OF RESULTS

USAID/West Bank and Gaza awarded a \$4,000,000 three-year cooperative agreement to American Near East Refugee Aid (ANERA). ANERA's program was to develop job opportunities through community infrastructure projects within communities in the Nablus, Ramallah and Jericho Governorates. As of March 31, 2005, ANERA had implemented 59 projects, costing approximately \$2.8 million. To implement the project ANERA signed grant agreements with municipalities and village councils to take responsibility for the operation and maintenance of the infrastructure projects and to provide community contributions. In addition ANERA awarded construction contracts to local contractors to perform the project work. (See page 2)

RIG/Cairo performed this audit to determine if USAID/West Bank Gaza (1) approved ANERA's implementation plans to ensure proposed activities complied with the statutory requirements prohibiting the award of U.S. funds to Palestinian Authority ministries, municipalities or other local government entities, and (2) concurred on the selection of subaward recipients and the substantive provisions of the subawards. (See page 2)

USAID/West Bank and Gaza approved ANERA's implementation plans. In addition, USAID/West Bank and Gaza followed the required procedures to initiate a review of the subcontractor and its key officials to ensure compliance with Executive Order 13224 *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism* to ensure proposed activities complied with the statutory requirements prohibiting the award of the U.S. funds to Palestinian Authority ministries, municipalities or other local government entities. (See page 3)

USAID/West Bank and Gaza did not concur on the selection of the subaward recipients and/or the substantive provisions of the subawards. The reason why, is USAID/West Bank and Gaza was not required to concur on the subawards and/or substantive provisions of the subawards based on USAID/West Bank and Gaza's Mission Order No. 17, titled Construction Oversight under Cooperative Agreements. (See page 4)

This report does not include any recommendations. We provided USAID/West Bank and Gaza an opportunity to provide formal comments on the draft report; however the Mission chose not to provide written comments to include as part of the final report.

BACKGROUND

USAID/West Bank and Gaza awarded a \$4,000,000 three-year cooperative agreement to American Near East Refugee Aid (ANERA). ANERA's program was to develop job opportunities through community infrastructure projects within communities in the Nablus, Ramallah and Jericho Governorates. As of March 31, 2005, ANERA had implemented 59 projects costing approximately \$2.8 million.

ANERA designed the program to partner with municipalities and village councils to engage local governments in identifying the community needs and jointly soliciting and reviewing the construction proposals. Furthermore, both ANERA and its government partners jointly monitored and evaluated the subcontractor's construction progress. The municipalities and village councils contributed cash or in-kind resources to the project and managed the operations of the project upon completion of the construction. ANERA formalized this partnership with the municipalities and village councils by awarding grants to the local government bodies with the understanding that both ANERA and the local government would jointly manage the USAID funded projects.

ANERA awarded subcontracts to local construction companies and paid the contractors with USAID project and cost sharing funds based on construction progress. ANERA reported quarterly to USAID/West Bank and Gaza updates on the project activities and informally through email and transmittal memorandums as ANERA needed to address progress issues with USAID/West Bank and Gaza.

AUDIT OBJECTIVES

This audit was conducted as part of RIG/Cairo's audit oversight responsibilities of the West Bank and Gaza program. Under the Consolidated Appropriations Act of Fiscal Year 2004, Section 566, funds are made available to the Office of Inspector General of USAID to audit the activities in the West Bank and Gaza to determine compliance with the prohibition of providing assistance to individuals or entities engaged in terrorist activity. The audit was conducted to answer the following questions:

- Did USAID/West Bank Gaza approve ANERA's implementation plans to ensure proposed activities complied with the statutory requirements prohibiting the award of U.S. funds to Palestinian Authority ministries, municipalities or other local government entities?
- Did USAID/West Bank Gaza concur on the selection of subaward recipients and the substantive provisions of the subawards?

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

AUDIT FINDINGS

Did USAID/West Bank Gaza approve ANERA's implementation plans to ensure proposed activities complied with the statutory requirements prohibiting the award of U.S. funds to Palestinian Authority ministries, municipalities or other local government entities?

USAID/West Bank and Gaza approved ANERA's implementation plans. In addition, USAID/West Bank and Gaza followed the required procedures to review the ANERA's subcontractors awarded, under this cooperative agreement, and its key officials to ensure compliance with Executive Order 13224 *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism* to ensure proposed activities complied with the statutory requirements prohibiting the award of the U.S. funds to Palestinian Authority ministries, municipalities or other local government entities.

Approval of Implementation Plans

USAID/West Bank and Gaza's cooperative agreement with ANERA included a section describing USAID's substantial involvement during performance of the award in accordance with Automated Directive System 303.5.11a. One requirement under the substantial involvement is that USAID/West Bank and Gaza must approve ANERA's implementation plans. In addition according to the terms of the program schedule, USAID/West Bank and Gaza was also required to approve significant project changes.

ANERA submitted an initial and revised implementation plan to USAID/West Bank and Gaza on October 15, 2002, and December 16, 2002, respectively for its first year of program implementation. USAID/West Bank and Gaza approved ANERA's first year implementation plan in writing on January 21, 2003. ANERA submitted its second year implementation plan on November 6, 2003 and USAID/West Bank and Gaza approved the plan in writing on February 24, 2004.

ANERA's first year implementation plan described how the projects would be implemented. ANERA described that through a joint partnership with municipalities and village councils, construction projects within the respective communities would be implemented. ANERA explained that under small and large scale projects these municipalities and village councils would sign a grant agreement with ANERA to take full responsibility for the implementation, operation and maintenance of the project. The partner was responsible to open a joint account with ANERA who would transfer the project funds into the account. The municipality and village council were also responsible for depositing the community contribution into the same project account.

Subsequent to the approval of the first year implementation plan, ANERA submitted requests to the Cognizant Technical Officer for approvals to modify the scopes of on-going projects, change the initial approved cost estimate, or add new projects under the program.

To determine how ANERA controlled and accounted for the project funds we selected four projects with four different local government bodies. For each of these projects ANERA provided supporting documentation demonstrating (1) the transfer of funds from ANERA into the joint project accounts, (2) the approval of payment of funds from the joint account to the construction contractors, and (3) the control of the disbursement of funds. The testing of the implementation plan with these four projects at the recipient level demonstrated compliance with the statutory requirements prohibiting the award of U.S. funds to Palestinian Authority ministries, municipalities or other local government entities.

Vetting¹ of Contractors

U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws.

USAID/West Bank and Gaza issued guidance requiring foreign contractors (receiving over \$100,000 annually), foreign non-governmental organizations, U.S. contractors, and contractors funded under the Cash Transfer Grant Agreement to the Palestinian Authority to be tested, or vetted, for affiliation with terrorism.

USAID/West Bank and Gaza maintained on file the supporting documentation that ANERA submitted for five construction contractors and the key individuals that were tested for affiliation with terrorism. In each case, USAID/West received notice that the vetting process did not identify the individuals or the organizations to have such affiliation.

USAID/West Bank and Gaza did not require ANERA to submit names of key personnel within the municipalities or village councils for which it entered into grant agreements with. The reason is because the aforementioned guidance includes a section that states “Government officials will be exempt from vetting with respect to assistance provided to them in their official capacities”. As a result, USAID/West Bank were not required to vet the key individuals within the municipalities and village councils acting within their official government capacity.

Did USAID/West Bank Gaza concur on the selection of subaward recipients and/or the substantive provisions of the subawards?

USAID/West Bank and Gaza did not concur on the selection of subaward recipients and/or the substantive provisions of the subawards. The reason why, is USAID/West Bank and Gaza was not required to concur on the subawards and/or substantive provisions of the subawards based on the USAID/West Bank and Gaza’s Mission Order No. 17, Construction Oversight under Cooperative Agreements.

¹ Vetting—reviewing organizations and individuals by the U.S. Government to ensure that the organizations or individuals are not affiliated with terrorism

USAID/West Bank and Gaza issued Mission Order No. 17 providing a description of Mission policy and procedures for substantial involvement in cooperative agreements with regard to construction activities, and to provide a description of Mission procedures for oversight of construction activities under a cooperative agreement. The latter describes the arrangement with USAID's cooperative agreement with ANERA. USAID/West Bank and Gaza issued this order in response to Automated Directive System 303.5.11a that addresses substantial involvement under cooperative agreements.

According to the Mission's policy, the specific construction activities requiring substantial involvement by the Mission are (1) a single construction activity with an estimated cost over \$500,000, or (2) a construction activity which has a particular potential to be hazardous to the health or safety, and/or have potential detrimental environmental consequences. In these two cases, the construction activities must be authorized before signing the cooperative agreement. Conversely, construction activities under a cooperative agreement not requiring substantial involvement are to be described in the annual implementation plans and submitted to the Mission for review and approval.

ANERA implemented 59 projects as of March 31, 2005, with a total estimated cost of approximately \$2.8 million. Under its cooperative agreement with USAID/West Bank and Gaza, ANERA awarded construction subcontracts ranging from \$5,000 to \$300,000 to local construction companies operating in the West Bank to perform small scale construction activities involving building and infrastructure repair. USAID/West Bank and Gaza approved the projects during its review of ANERA's annual implementation plans in accordance with the Mission's policy. Furthermore, USAID/West Bank and Gaza approved ANERA proposed changes to project scope and budgets identified during the project implementation stages in accordance with the terms of the cooperative agreement.

Other Matters

To test for compliance with USAID's policy and terms and provisions of the cooperative agreement, we relied on the Cognizant Technical Officer's (CTO) files. Though we were able to locate sufficient evidence to demonstrate the CTO's level of substantial involvement in the oversight of USAID's agreement with ANERA, the CTO did not maintain organized files. Although no criteria specify the content and organization of the CTO files, it would benefit the strategic objective team if pertinent correspondence evidencing approvals and CTO involvement were organized in a systematic manner. By doing so, the strategic objective team would be able to access the data more efficiently, and it would strengthen reliance that USAID's files are current, accurate, and complete.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo conducted this audit in accordance with U.S. generally accepted government auditing standards. This audit was designed to answer the following two questions: (1) Did USAID/West Bank Gaza approve ANERA's implementation plans to ensure proposed activities complied with the statutory requirements prohibiting the award of U.S. funds to Palestinian Authority ministries, municipalities or other local government entities? (2) Did USAID/West Bank Gaza concur on the selection of sub-award recipients and the substantive provisions of the sub-awards?

To answer the first audit objective, the scope included ANERA's implementation plans submitted in October 2002 and November 2003 and review of the Cognizant Technical Officer's (CTO) files supporting USAID/West Bank and Gaza's substantial involvement in the review and approval of the plans. To answer the second audit objective, the audit universe included 31 municipalities and village councils within the West Bank that received grants from ANERA. Within these 31 municipalities and village councils, ANERA subcontracted for a total of 59 community infrastructure projects. To answer both objectives, the audit included USAID/West Bank and Gaza's CTO's files maintained for the projects implemented under ANERA's cooperative agreement from August 30, 2002, through March 31, 2005.

In planning and performing the audit, we assessed the effectiveness of internal controls related to USAID/West Bank and Gaza's substantial involvement in managing its cooperative agreement with ANERA. We identified USAID's significant internal controls as (1) maintaining document support evidencing the USAID's approval of ANERA's implementation plan, (2) maintaining documentation support evidencing USAID approval of ANERA's changes to the projects, and (3) maintaining supporting documentation evidencing USAID joint concurrence with ANERA on the selection of the projects.

We reviewed and considered the following types of evidence in formulating our audit results:

- Testimony from USAID/West Bank and Gaza's Cognizant Technical Officer,
- CTO correspondence files,
- ANERA's implementation plans,
- ANERA's proposal,
- ANERA's quarterly reports,
- Testimony from representatives from ANERA,
- Supporting documentation that ANERA maintained to substantiate the management and control of USAID funds,
- Supporting documentation demonstrating the vetting of subcontractors and key officials.

Relevant criteria included the terms and conditions under Cooperative Agreement No. 294-A-000229-00, Automated Directives System section 303, USAID/West Bank and Gaza's Mission Orders, USAID/West Bank and Gaza's implementation instructions for Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism*. We reviewed prior financial audit results of ANERA and identified one instance of noncompliance applicable to the subject of this audit.

As of March 31, 2005, ANERA had implemented 59 projects with a total estimated cost of approximately \$2.8 million, under its Job Opportunities through Basic Services program.

This report summarizes the results of our audit work. The fieldwork for this audit was performed in Tel Aviv and Jerusalem from May 16, 2005, through May 20, 2005.

Methodology

To answer the first audit objective, we conducted an interview with the Cognizant Technical Officer to determine USAID/West Bank and Gaza's level of substantial involvement in its cooperative agreement with ANERA. We reviewed the pertinent documentation within the CTO's file to determine if USAID had sufficient and adequate support to demonstrate its involvement. Specifically, we verified that ANERA submitted the required implementation plans providing details of the specific activities it supported. For local governments identified as subgrant recipients, we reviewed the CTO files to determine if the CTO investigated how the partnering arrangement between ANERA and the local government would operate. We reviewed documentation substantiating USAID/West Bank and Gaza's approval of ANERA's implementation plans. We also reviewed supporting document to substantiate that vetting procedures were followed for ANERA's subcontractors.

Furthermore, we interviewed representatives with ANERA and selected four projects to examine further how the grant award mechanism worked between ANERA and the local government partners. We selected the four projects based on criteria of selecting from two different village councils and two different municipalities. For each award selected, ANERA provided copies of bank documents verifying the names of the bank accounts. We verified that the bank documents identified ANERA's name on the account and that ANERA's representative with signature approval on the account was a key employee of ANERA. For each of the four selected projects we traced the payment amount from the contractor's invoice to ANERA's instructions to the bank for payment and to the issued check. We reviewed each bank check and confirmed that ANERA representatives with signature authority signed the check. In addition, we verified that the supplier noted on the invoice agreed with the payee identified on the face of the check.

To answer the second audit objective, we reviewed the terms of the cooperative agreement to identify the extent of USAID/West Bank and Gaza's involvement in the subaward process. We determined that ANERA was to provide a description of the projects within its implementation plans for USAID approval. Therefore, we identified the universe of projects that ANERA implemented under its cooperative agreement. We

judgmentally sampled 33 out of 59 projects based on the criteria to select at least one project from each of the participating municipalities and local village councils. We selected two projects from the municipalities in Jericho and Ramallah to allow for a larger coverage of the dollars. We conducted the following tests for each:

- Verified that ANERA presented the project description and the proposed grantee to USAID for approval.
- Verified that USAID/West Bank Gaza had evidence to support approval of the project.

We did not determine materiality threshold for evaluating results since the audit is testing for compliance with legislative prohibitions.

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