



USAID
FROM THE AMERICAN PEOPLE

August 15, 2006

MEMORANDUM

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

FROM: Regional Inspector General/Cairo, David H. Pritchard /s/

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

This memorandum transmits our final report on the subject. We have considered your comments on the draft report and have included your response in its entirety as Appendix I. This is not an audit report, and the report does not contain suggestions or recommendations.

I appreciate the cooperation and courtesy extended to our staff throughout the survey.

BACKGROUND

The Consolidated Appropriations Resolution of 2003, the Consolidated Appropriations Act of 2004, the Consolidated Appropriations Act of 2005, and the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2006, included the following requirement.

The Administrator of the United States Agency for International Development shall ensure that Federal or non-Federal audits of all contractors and grantees, and significant subcontractors and subgrantees, under the West Bank and Gaza Program, are conducted at least on an annual basis.

To fulfill this requirement, each of these Acts says the USAID Office of Inspector General may use up to \$1 million of the funds appropriated for audits, inspections, and other activities.

To help USAID meet its expanded audit requirements under the above legislation, the Office of Inspector General has implemented a program to audit annually USAID's contractors and grantees, and significant subcontractors and subgrantees, that receive USAID funding for the West Bank and Gaza Program. This is the second report issued for the financial audit program. The Office of Inspector General issued the first report on the first 30 audit reports on March 28, 2005.¹

SURVEY OBJECTIVE

We conducted this survey as part of the Office of Inspector General's audit plan to answer the following question:

- What are the status and results of the first 60 financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the appropriations acts of 2003, 2004, 2005, and 2006?

¹ Audit Report No. 6-294-05-002-S, "Information on Status and Results of the First 30 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Consolidated Appropriations Acts of 2003, 2004, and 2005," March 28, 2005

DISCUSSION

As of June 5, 2006, USAID had procured 116 financial audits, and the Office of Inspector General had released 60 final audit reports. Appendix I provides a list of these 60 final reports. As required by the legislation, USAID is procuring additional audits in fiscal year 2006.

Questioned Costs

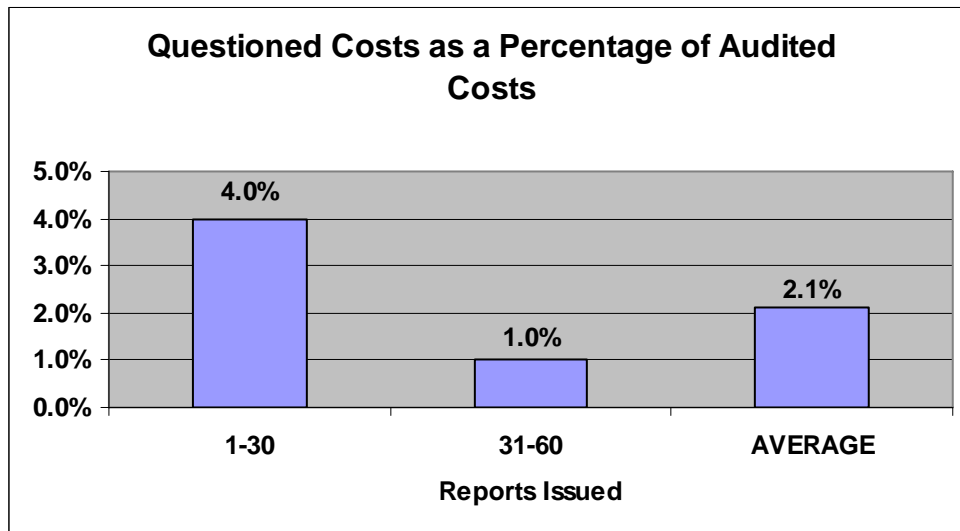
As shown in Table 1, the first 60 financial audits resulted in \$2.9 million in questioned costs out of \$134.9 million audited. Of the 60 audits, the first 30 audits resulted in questioned costs of \$2.0 million while the next 30 audits resulted in \$0.8 million in questioned costs. The overall costs audited increased from \$50 million for the first 30 audits to \$84 million for the second 30 audits.

Table 1: Questioned Costs

Reports Issued	Unsupported ² Questioned Costs	Ineligible ³ Questioned Costs	Questioned Costs	Audited Costs
1-30	\$232,742	\$1,779,369	\$2,012,111	\$50,490,616
31-60	303,664	544,329	847,993	84,367,802
TOTAL	\$536,406	\$2,323,698	\$2,860,104	\$134,858,418

The overall \$2.9 million in questioned costs (from 35 of the 60 audit reports) were 2.1 percent of the total audited costs. The questioned costs represent 4.0 percent for the first 30 audits and 1.0 percent for the second 30 audits as shown in Chart 1 below.

Chart 1: Questioned Costs as a Percentage of Audited Costs



² Unsupported questioned costs are costs which lacked adequate documentation or required prior approvals or authorizations.

³ Ineligible questioned costs are costs that were unreasonable, prohibited by the agreements or applicable laws and regulations, or were not program related.

Reportable Conditions in Internal Control and Material Instances of Noncompliance

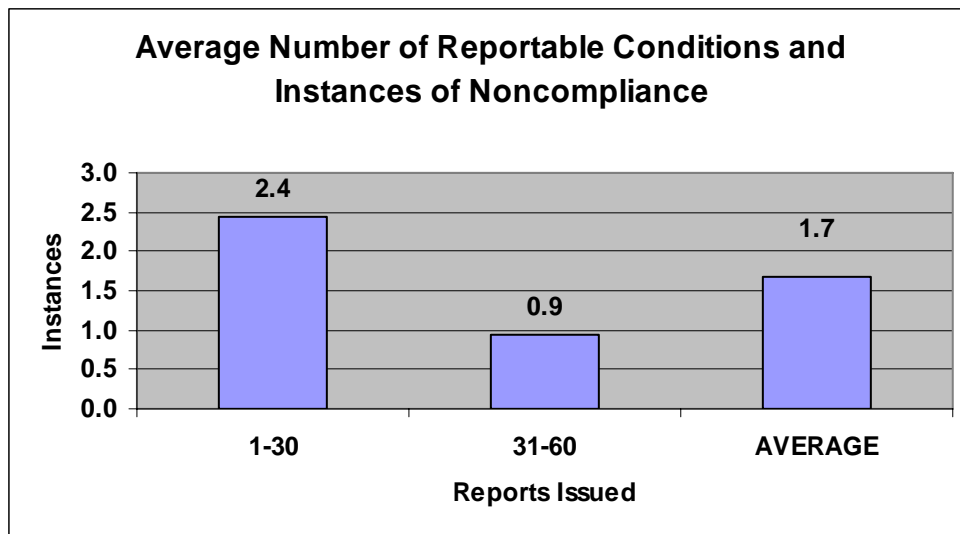
In addition to questioned costs, the 60 financial audits disclosed 33 reportable conditions in internal control and 68 material instances of noncompliance with agreement terms and applicable laws and regulations. Four of the 60 audits disclosed 30 of the 33 reportable conditions and 7 of the 60 financial audits disclosed 36 of the 68 material instances of noncompliance. As shown in Table 2, the first 30 audits reported 73 reportable conditions and instances of noncompliance while the second 30 audits reported 28.

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

Reports Issued	Reportable Conditions in Internal Control ⁴	Material Instances of Noncompliance ⁵	Total
1-30	28	45	73
31-60	5	23	28
Total	33	68	101

As shown in Chart 2, the average number of reportable conditions and material instances of noncompliance was 1.7 per report for the first 60 audits—an average of 2.4 instances for the first 30 audits and 0.9 for the second 30 audits. Thirty-two of the 60 reports had neither reportable conditions nor material instances of noncompliance.

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



⁴ Reportable conditions in internal control relate to significant deficiencies in the design or operation of internal control that could adversely affect the recipient's ability to record, process, summarize, and report financial data.

⁵ Material instances of noncompliance relate to noncompliance with agreement terms and applicable laws and regulations that could have a direct and material effect on the fund accountability statement of the organization.

CONCLUSION

This report provides the status and results of the first 60 financial audit reports of USAID/West Bank and Gaza activities conducted in accordance with the statutory requirements of the appropriations acts of 2003, 2004, 2005, and 2006. We plan to periodically issue status reports, which will report on cumulative and comparative results over time.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/West Bank and Gaza provided additional helpful information on the status of the program, including the status of recommendations, the status of questioned costs, examples of questioned costs, and examples of reportable conditions in internal control and material instances of noncompliance. For example, USAID/West Bank and Gaza provided data that showed:

- For the second 30 audit reports that were released to the Mission, 18 of these reports included 34 recommendations; 29 recommendations were related to questioned costs, and 5 were related to internal control and compliance issues.
- For the status of the questioned costs of \$847,993 for the second 30 audit reports, \$452,403 were costs disallowed and collected from recipients, \$248,261 were costs allowed by the Mission, and \$147,329 were costs outstanding pending final determination.
- Examples of questioned costs included over billing, incorrect calculation of indirect costs, compliance with source and origin requirements, and lack of prior USAID approval of procurement actions.
- For the status of the 5 recommendations relating to internal control and compliance issues, in 4 cases the Mission agreed with the recommendations and took corrective actions, and in 1 case the Mission found that the contractor was in compliance with the agreement terms and applicable laws and regulations.
- Examples of reportable internal control conditions and material instances of noncompliance included improper compliance with source and origin requirements, noncompliance with Acquisition and Assistance Policy Directive 02-04, “Implementation of Executive Order 13224—Executive Order on Terrorism Financing”, lack of contract provisions for sub-awards, and lack of cost sharing review of sub-awardees.

USAID/West Bank and Gaza said that based on the materiality of the questioned costs and the general findings on internal controls and compliance, the risk level according to the audits appears minimal. We neither agree nor disagree that the risk level appeared minimal. Assessing risk needs to account for both internal and external factors, some being outside the span of control of management. Examples of outside factors include significance and sensitivity.

USAID/West Bank and Gaza said that the Mission was taking proper steps to ensure compliance by its contractors and grantees. The Mission also said that it was taking timely actions to ensure that management decisions were reached and that outstanding recommendations were timely addressed and closed. We agree and appreciate the Mission’s collaboration in ensuring that outstanding recommendations are timely addressed.

Summary of West Bank and Gaza First 60 Financial Audits

#	Report Number	Recipient	Total Questioned Costs	Total Costs Audited	Reportable Conditions in Internal Control and Material Instances of Noncompliance
1 to 30	Various - See footnote 1 on page 2	Subtotal=	\$2,012,111	\$50,490,616	73
31	6-294-05-016-N	The Services Group	\$304,043	\$1,694,331	7
32	6-294-05-017-N	Chemonics	\$0	\$749,532	0
33	6-294-05-018-N	International Youth Foundation	\$0	\$795,269	0
34	6-294-05-020-N	Catholic Relief Services	\$7,804	\$518,642	0
35	6-294-05-021-N	Catholic Relief Services	\$171,965	\$977,464	0
36	6-294-05-022-N	Catholic Relief Services	\$1,306	\$3,716,778	0
37	6-294-05-024-N	Associates in Rural Development	\$980	\$996,171	0
38	6-294-05-025-N	Cooperative Housing Foundation	\$16,044	\$1,881,697	1
39	6-294-05-026-N	Cooperative Housing Foundation	\$13,692	\$1,935,269	2
40	6-294-05-027-N	Cooperative Housing Foundation	\$21,153	\$2,696,991	1
41	6-294-05-028-N	Cooperative Housing Foundation	\$16,747	\$757,939	2
42	6-294-05-029-N	Cooperative Housing Foundation	\$54,736	\$2,207,682	2
43	6-294-05-030-N	Cooperative Housing Foundation	\$26,226	\$3,977,850	2
44	6-294-05-032-N	Palestinian Authority	\$58,322	\$12,291,549	1
45	6-294-05-034-N	Palestinian Academic Society for the Study of International Affairs	\$4,612	\$761,711	1

APPENDIX I

#	Report Number	Recipient	Total Questioned Costs	Total Costs Audited	Reportable Conditions in Internal Control and Material Instances of Noncompliance
46	6-294-05-035-N	Palestinian Authority	\$0	\$20,000,038	0
47	6-294-05-036-N	Financial Markets International	\$20,000	\$649,726	5
48	6-294-05-037-N	Youth Project Developing Council (subgrantee)	\$0	\$532,386	0
49	6-294-05-038-N	Development Alternatives, Inc.	\$10,900	\$5,587,216	0
50	6-294-05-039-N	Development Alternatives, Inc.	\$0	\$66,871	0
51	6-294-06-001-N	Palestinian Authority	\$12,189	\$2,239,178	1
52	6-294-06-002-N	Metcalf and Eddy	\$300	\$1,855,573	0
53	6-294-06-003-N	Industrial Details (subgrantee)	\$0	\$157,783	0
54	6-294-06-004-N	Massar Associates (subgrantee)	\$0	\$144,901	0
55	6-294-06-005-N	International Technology Investment (subgrantee)	\$0	\$636,446	0
56	6-294-06-007-N	Palestinian Authority	\$0	\$1,190,533	0
57	6-294-06-008-N	Save the Children Federation	\$71,392	\$4,555,535	1
58	6-294-06-009-N	Associates in Rural Development	\$35,582	\$4,871,208	2
59	6-294-06-010-N	Mercy Corps International	\$0	\$4,805,688	0
60	6-294-06-011-N	Palestinian Authority	\$0	\$1,115,845	0
31 to 60		Subtotal=	\$847,993	\$84,367,802	28
1 to 60		TOTALS=	\$2,860,104	\$134,858,418	101

MANAGEMENT COMMENTS



USAID | WEST BANK/GAZA

MEMORANDUM

DATE: July 17, 2006

TO: David H. Pritchard, Regional Inspector General / Cairo

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

SUBJECT: Information on status and results of the first 60 financial audits of USAID West Bank and Gaza activities in accordance with the statutory requirements of the Appropriations Acts of 2003, 2004, 2005 and 2006. **(Report No. 6-294-06-00x-S)**

Reference: Pritchard / Bever memorandum dated 7/6/06

USAID West Bank and Gaza Mission would like to thank the Regional Inspector General / Cairo for their draft status report regarding the results of the first 60 financial audits of USAID West Bank and Gaza activities. We have reviewed the subject report and the following are our comments with regard to the second 30 audit reports:

For the second 30 audit reports that were released to the Mission, 18 of these reports included 34 recommendations; 29 recommendations were related to questioned costs and 5 were related to internal control and compliance issues. The Mission has reached a management decision with RIG/C for all 34 recommendations. Currently 9 recommendations relating to 8 audit reports are pending final action. Seven out of the nine recommendations are pending final determination of M/OAA with relation to an appeal that was submitted to the OP director subsequent to the Agreement Officer's final determination.

Regarding questioned costs in the total amount of \$847,993, the status of these costs is as follows:

<u>31 - 60</u>	<u>1 - 30</u>	
\$452,403	\$ 94,589	Costs disallowed and collected from recipients
248,261	894,496	Costs allowed by the Contracting / Agreement Officer
147,329	0	Costs outstanding pending final determination of M/OAA
0	1,023,026	Costs outstanding pending the Mission reaching a management decision with RIG/C
<u>\$ 847,993</u>	<u>\$ 2,012,111</u>	Total

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

Regarding recommendations relating to internal control and compliance issues, the status of these recommendations is as follows:

- 4 Contracting/Agreement Officer agreed with the recommendations and corrective action has already been taken.
 - 1 Contracting/Agreement Officer found that the contractor was in compliance with the agreement terms and applicable laws and regulations and there were no internal control deficiencies.
- 5 Total Recommendations**

Examples of reportable internal control conditions and material instances of noncompliance included improper compliance with source and origin requirements, noncompliance with AAPD 02-04 "Implementation of E.O.13224 – Executive Order on Terrorism Financing", lack of contract provisions for sub-awards, and lack of cost sharing review of sub-awardees.

Based on the materiality of the questioned costs and the general findings on internal controls and compliance, the risk level according to the audits appears minimal. The Mission is taking proper steps to ensure compliance by its contractors and grantees and is taking timely actions to ensure that management decisions are reached with RIG/C and that outstanding recommendations are timely addressed and closure reached with M/CFO/APC.