

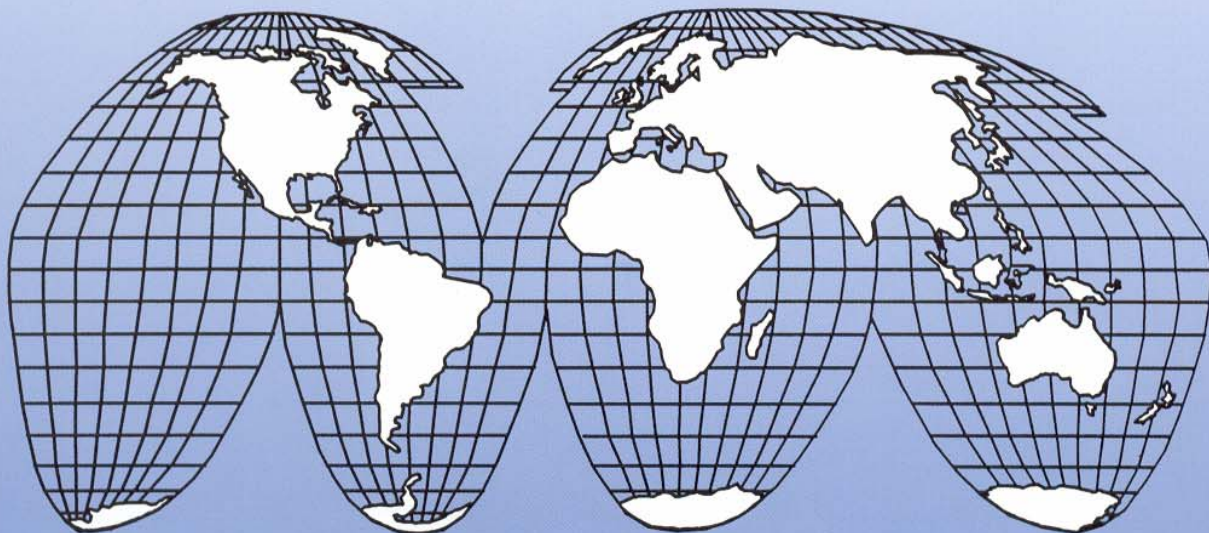
USAID

OFFICE OF INSPECTOR GENERAL

Audit of Regional Activities Administered by USAID's Bureau for Latin America and the Caribbean

Audit Report No. 1-598-04-007-P

June 04, 2004



San Salvador, El Salvador



June 04, 2004

MEMORANDUM

FOR: Director LAC/RSD, Cecily Mango

FROM: RIG/San Salvador, Steven H. Bernstein

SUBJECT: Audit of Regional Activities Administered by the Bureau for Latin America and the Caribbean (Report No. 1-598-04-007-P)

This memorandum is our 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 one recommendation for your action. Based on your comments and actions taken, part A of the recommendation is closed upon issuance of this report and a management decision has been reached for part B of the recommendation. A 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 what regional activities were funded by the Bureau for Latin America and the Caribbean (LAC)¹; how the LAC Bureau managed its regional activities and what responsibilities were assigned to others; and whether the LAC Bureau ensured financial audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies (page 7).

The activities funded by the LAC Bureau supported eight strategic objectives: Health, Regional Democracy Initiatives, Market Access, Environmental, Program Development and Learning, Advancing Development Cooperation Opportunities in the Hemisphere, Conservation of Biological Resources, and Education and Training Improvement (page 7).

The LAC Bureau managed and monitored its activities through four phases: planning, awarding, implementing, and reporting/monitoring. The responsibilities for management for each strategic objective were primarily assigned to the team leaders and Cognizant Technical Officers as well as to the LAC missions and other USAID Bureaus for consultation purposes. Occasionally, independent contractors were assigned monitoring and evaluation responsibilities, but they reported directly to the team leader and/or the Cognizant Technical Officer. As part of the reporting/monitoring phase, the LAC Bureau utilized data quality assessments, work plans, performance monitoring plans, progress and financial reports, and performed site visits (page 12).

The LAC Bureau did not ensure that financial audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies (page 15).

We made one recommendation to address the lack of financial audits discussed in this report. We recommended that the Bureau for Latin America and the Caribbean: (a) send the two audit reports received to the Office of Inspector General and (b) obtain fund accountability audit reports for the four organizations that have not conducted audits for fiscal years 2002 and 2003 and submit those audit reports to the Office of Inspector General (page 17).

The LAC Bureau agreed with the recommendation in this report and has taken action on part A of the recommendation, therefore, part A of the recommendation is closed upon issuance of this report. A management decision has been made for part B of the recommendation (page 21).

¹ All mention of the Bureau for Latin America and Caribbean in this report is limited to LAC regional activities managed by the Office of Regional Sustainable Development, and the Strategy and Program Office.

Background

Over the last several years, the Latin America and the Caribbean (LAC) region has faced increasing development challenges. Insufficient economic growth rates, growing unemployment, extensive poverty, and skewed income distribution continue to undermine the economic and political stability of the region.

The purpose of the LAC regional program was to support and strengthen critical U.S. national interests in the LAC region that are beyond the scope of the bilateral and sub-regional programs. U.S. foreign policy interests in the region include fostering peace, stability, economic prosperity, and reducing illegal immigration and the flow of narcotics to the U.S. The LAC regional program supports these objectives by promoting free trade and equitable economic growth, strengthening and consolidating democracy in the region, fostering responsible management of the natural resource base, and promoting quality education and health care.

USAID implements bilateral programs in 16 LAC countries, has three sub-regional programs (Eastern Caribbean, Central America, and the Andean region of South America), and has a LAC-wide regional program managed by the Office of Regional Sustainable Development, based in Washington, D.C. At all levels, these programs coordinate and interact with host countries, the multilateral development banks, other bilateral donors and the private sector, including a host of non-governmental groups.

The core areas for the LAC regional program were:

- Improving the health status of the region's population,
- Strengthening democratic institutions and processes,
- Supporting the Free Trade Area of the Americas through regional trade capacity building,
- Improving market access to reduce poverty and economic inequality,
- Protecting the region's biodiversity and reducing the threat of global climate change,
- Advancing development cooperation opportunities in the hemisphere,
- Supporting new environmental technologies and partnerships, and
- Improving the quality of education.

The LAC Bureau's fiscal year 2004 proposed budget was approximately \$80 million for regional activities that contribute to strategic objectives being implemented by various organizations.

The audit covered all activities currently funded by the Bureau for Latin America and the Caribbean as of the first day of fieldwork, March 22, 2004. Life of project funding for those activities totaled approximately \$115 million. The audit also covered all non-U.S. based recipients who expended \$300,000 or more in USAID funds in fiscal year 2002 and fiscal year 2003.

Audit Objectives

As part of its fiscal year 2004 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

1. What regional activities were funded by the Bureau for Latin America and the Caribbean?
2. How was the Bureau for Latin America and the Caribbean managing its regional activities and what responsibilities have been assigned to others?
3. Did the Bureau for Latin America and the Caribbean ensure that financial audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies?

Appendix I describes the audit's scope and methodology.

Audit Findings

What regional activities were funded by the Bureau for Latin America and the Caribbean?

Activities funded by the Bureau for Latin America and the Caribbean (LAC) supported eight strategic objectives: Health, Regional Democracy Initiatives, Market Access, Environmental, Program Development and Learning, Advancing Development Cooperation Opportunities in the Hemisphere, Conservation of Biological Resources, and Education and Training Improvement. A new strategic objective, Health Advancement, will begin in fiscal year 2004 to replace the current health objective. The strategic objectives and their activities are presented in Table 1. Following the table, each activity is summarized based on our discussions with the strategic objective team leaders in the LAC Bureau and our review of the Congressional Budget Justification. The implementing partners and financial status of the activities funded by the LAC Bureau are presented in Appendix III.

Table 1 – Summary of Activities Funded by LAC Bureau as of March 2004

Strategic Objective/Activity	Funding to Date
598-003 Health	
Maternal Mortality	\$3,539,032
Vaccination	7,678,617
Integrated Management of Childhood Diseases	5,533,023
HIV/AIDS	812,217
Amazon Malaria	5,906,000
Infectious Diseases	5,460,571
Health Sector Reform	5,406,733
Family Planning	458,688
Technical Advisors and Program Support	2,928,318
598-005 Regional Democracy Initiatives	
Human Rights/Rule of Law	5,815,548
Public Sector Legitimacy	8,850,411
Pluralism and Citizen Participation	4,089,900
598-017 Market Access	
Asset Related Constraints Reduced	7,094,934
Business Related Constraints Reduced	1,501,972
598-018 Environmental	
Trade and Environment	665,000
Water and Sanitation	565,000
Cleaner Production	870,389
Advisors	105,000
598-020 Program Development and Learning	
Various	1,917,717
598-021 Advancing Development Cooperation Opportunities in the Hemisphere	
Various	2,493,064
598-022 Conservation of Biological Resources	
Parks in Peril	10,500,000
Technical Advisors	1,217,250
598-023 Education and Training	
Improving the Environment for Education Reform	7,444,773
Improving the Skills of Teachers and Administrators	15,350,000
Improving the Relevance and Skills of the Workforce	7,740,000
Advisors	1,071,698
598-024 Health Advancement	-
Total	\$115,015,855

Note: Amounts were not audited.

598-003 Health - Activities under this strategic objective included initiatives in maternal mortality, vaccination, integrated management of childhood diseases, HIV/AIDS, Amazon malaria, infectious diseases, health sector reform, family planning, and funding for technical advisors and program support.

The maternal mortality initiative was primarily directed at Ministries of Health and professional associations involved in obstetric care. Its aims were to prevent obstetric complications and maternal deaths and to improve service delivery quality. The prime implementing partners for this initiative were Pan American

Health Organization (PAHO) and the University Research Corporation International.

The vaccination initiative aimed to provide more sustainable and equitable national vaccination programs. Activities included sponsoring experts to recommend program improvements to reduce inequities in vaccine coverage, monitoring new diseases, and identifying districts with low vaccination coverage. The prime implementing partner for this initiative was PAHO.

The integrated management of childhood diseases initiative provided training and technical assistance to decrease infant deaths and provided protocols for local health workers to assist in early childhood development. The program also increased the capacity to correct problems in child malnutrition. The prime implementing partners for this initiative were PAHO and The Partnerships for Child Health Care.

The HIV/AIDS initiative provided training courses to share knowledge and information regarding prevention, treatment, and care. The prime implementing partner for this initiative was TvT Associates.

The Amazon malaria initiative performed drug efficacy studies to use in updating drug protocols for maximum effectiveness in reducing malaria. The initiative conducted operations research on the effectiveness of malaria control measures. It also expanded the database of region-specific materials on malaria control and prevention. These activities were being carried out in collaboration with USAID/Peru and USAID/Bolivia. The prime implementing partners for this initiative were PAHO and the Centers for Disease Control and Prevention.

The infectious diseases initiative built on progress achieved under the antimicrobial resistance initiative and the Hurricanes Mitch and George reconstruction programs. Activities included supporting the development of public health surveillance and field epidemiological investigation capacity with respect to high priority public health areas such as maternal and child health, HIV/AIDS, and infectious diseases. Funds were also used for training workshops on tuberculosis drug management, epidemiology, and operations research. The prime implementing partners were PAHO and the Centers for Disease Control and Prevention.

The health sector reform initiative aimed to support efforts to regulate the quality of health care, conduct comparisons of health sector reform trends and publish lessons learned in health sector reform. This initiative included establishing a framework that addressed factors for improving the overall impact of health reforms, specifically with decentralization of pharmaceutical management. The prime implementing partners for this initiative were PAHO and ABT Associates.

The family planning initiative focused on developing, evaluating and bringing to market new and better products for family planning and the prevention of sexually

transmitted infections. It aimed to expand the number of contraceptive methods available by appropriately introducing or reintroducing methods into service delivery settings. The prime implementing partners for this initiative were The Population Council and Reproductive Health Operations Research.

598-005 Regional Democracy Initiatives - Activities under this strategic objective included initiatives for human rights and rule of law, public sector legitimacy, and pluralism and citizen participation.

The human rights and rule of law initiative encouraged respect for human rights and observance of the rule of law. Activities included training of human rights and justice reform advocates and promoting pilot projects to reduce crime and violence. The prime implementing partners were the Inter-American Institute of Human Rights and the U.S. Department of Justice.

The public sector legitimacy initiative aimed to document methodologies for implementing anti-corruption strategies to increase internal controls, improve transparency, and expand accountability. This initiative assisted regional associations of electoral commissions to improve the independence of electoral systems and to promote political reform. The initiative also aimed to improve local government capacity in financial management, citizen participation, and knowledge management. The prime implementing partners were Casals and Associates, and International City and County Management Association.

The pluralism and citizen participation initiative concentrated on sustaining citizen participation for achieving good governance. Activities focused on advancing a culture of accountability through citizen participation, transparency, and pluralism. The prime implementing partner was Partners of the Americas.

598-017 Market Access - Activities under this strategic objective included initiatives to reduce asset-related and business-related constraints.

The initiative to reduce asset-related constraints performed assessments and analysis and conducted regional workshops to improve property rights. The program supported activities to decrease transaction costs for the transfer of remittances and promoted the investment of remittances by encouraging finance institutions to expand access to the private sector. The prime implementing partners were Accion International and the U.S. Department of Agriculture.

The initiative to reduce business-related constraints aimed to facilitate information on the benefits of free trade. The program improved feedback mechanisms for the private sector and civil society into the negotiation process for free trade. The prime implementing partner was CARANA Corporation.

598-018 Environmental - Activities under this strategic objective included promoting trade and environment, improving water and sanitation services, promoting cleaner production, and providing funding for advisors.

The trade and environment initiative supported activities that promoted replicable market-based models for improved natural resource management. The initiative also developed a methodology for national environmental assessments of the potential impact of proposed multilateral trade agreements in the Americas. The prime implementing partner was the Organization of American States.

The water and sanitation services initiative aimed to identify suitable and replicable management models for water supply and sanitation services in smaller towns and rural areas to complement and support the tremendous regional movement towards decentralization. The prime implementing partner was Camp Dresser & McKee International, Inc.

The promotion of cleaner production initiative supported the adoption of cleaner production technologies in the LAC region through activities such as discussions with the private sector to create a regional cleaner production center and a waste exchange model. The prime implementing partner was PA Government Associates, Inc.

598-020 Program Development and Learning (PD&L) - PD&L was only a strategic objective from a programming point of view. PD&L resources supported a wide variety of activities, including studies, analyses, assessments, and evaluations. Included under PD&L were program design, development, and learning efforts for proposed activities and/or programs that were under consideration but did not yet fall within an existing strategic plan or objective. Examples included the studies and analyses needed to develop a new country strategy, the design of a new program, or the evaluation of a completed program. Prior to determining implementing partners, the strategic objective team leaders identified specific tasks. The selected implementing partners were the Academy for Education Development; John Snow, Inc.; Futures Group; LTG Associates, Inc.; Inter-American Development Bank; and Norma Jean Parker.

598-021 Advancing Development Cooperation in the Hemisphere (ADCOH) - ADCOH was only a strategic objective from a programming point of view. Once a determination was made on who would implement the program, the funds and management responsibilities were transferred or allocated to a LAC regional program, a different bureau or to a mission. Included in ADCOH were special initiatives that responded to foreign policy issues but did not fall under an approved strategic plan. The implementing partners selected were Alfallt International Inc., United Negro College Fund, St. Michaels College and the Academy for Education Development.

598-022 Conservation of Biological Resources - Activities under this strategic objective included the Parks in Peril program and funding for technical advisors.

The Parks in Peril initiative strengthened the conservation capacity of selected threatened parks and reserves with an emphasis on trans-border and marine

ecosystems. Activities also included supporting multi-site strategies that promoted national and regional systems of conservation areas and strategic public and private conservation alliances. The prime implementing partner was The Nature Conservancy.

598-023 Education and Training Improvement - Activities under this strategic objective included improving the environment for education reform, the skills of teachers and administrators, and the relevance and skills of the workforce.

The initiative to improve the environment for education reform worked to improve the availability of education data to facilitate effective parental and community involvement. The prime implementing partners were the Inter-American Dialogue and Creative Associates.

The initiative to improve skills of teachers and administrators provided training and technical assistance under the Centers of Excellence in Teacher Training. Activities also included developing and testing new materials and conducting research on reading methodologies. The prime implementers of this initiative were the Universidad Peruana Cayetano and the University of the West Indies.

The initiative to improve the relevance and skills of the workforce recruited new participants into the Cooperative Association of States for Scholarships program. This program offered technical skills training that would help participants gain employment upon return to the participants' home country. The prime implementing partner was Georgetown University - Center for Intercultural Education and Development.

598-024 Health Advancement - This strategic objective is expected to be implemented in fiscal year 2004 and will support regional activities that will keep decision makers better informed and increase advocacy and policy dialogue with decision makers at all levels from Ministries of Health to local communities. As of March 2004, no funding has been authorized. Total budgeted for the strategic objective is \$6,400,000 for fiscal year 2004.

How was the Bureau for Latin America and the Caribbean managing its activities and what responsibilities for management have been assigned to others?

The Bureau for Latin America and the Caribbean (LAC) managed and monitored its activities through four phases: planning, awarding, implementing, and reporting/monitoring. Responsibilities for management generally have been assigned to team leaders and Cognizant Technical Officers (CTOs) for each strategic objective with the assistance of other bureaus, implementing partners, and independent contractors as discussed below.

Planning - As part of the planning phase of the management and monitoring process, the LAC Bureau submitted a Program Budget for the Agency's annual

budget and program review. The budget submission included detailed descriptions of the Bureau's program and budget requests at various levels by program account, operating expense, and staff. It was used for the preparation of the Agency Budget Submission which became the basis for the USAID Congressional Budget Justification. Through submission of the Budget Justification, the Bureau obtained the approved funding to carry out activities and, when necessary for budgetary adjustments, submitted a Congressional Notification.

Within the LAC Bureau, under each strategic objective and accompanying intermediate results, Activity Approval Documents (AADs) were developed and approved within the Bureau and by the Office of the General Counsel. Each strategic objective team was responsible for identifying activities related to the results of the AADs and for ensuring that individual activities in the Bureau coincided with the overall Bureau strategy. In developing all LAC Bureau activities, the strategic objective teams consulted with LAC missions and regional and global Bureaus located in Washington, as necessary. They also consulted implementing partners, if available, for input into the design of the activities to be undertaken.

Awarding - As part of the awarding process, the awards were competed (unless supported by documentation approving a non-competitive award) and signed by USAID's Bureau for Management, Office of Procurement. LAC missions also provided essential feedback on bidding organizations' past performance. For awards to Public International Organizations and to other U.S. government agencies under authority of section 632 (b) of the Foreign Assistance Act of 1961, the Assistant Administrator of LAC used his delegated authority to sign awards.

Implementing – Third party organizations were the primary participants in the implementing process. The implementing organizations were required to perform the day to day functions necessary to achieve the objective. They managed and monitored the daily activities under the supervision of a CTO and were required to submit progress reports, quarterly reports, and annual financial reports. In consultation with the CTO, the implementing partners developed work plans describing in detail the activities to be undertaken. In addition, the CTOs in many cases were in frequent contact with the LAC missions for consultation and advice on the progress and/or problems of the implementing activities. In a few cases, the LAC missions implemented the activities themselves and served as CTOs for the project.

Reporting/Monitoring - As part of the reporting/monitoring process, each strategic objective in the LAC Bureau was assigned a team leader who was responsible for the overall managing and monitoring for the team's strategic objective, including the supervision of the CTOs. In some cases, the team leader was also the CTO for the activity. The CTOs were certified and assigned by the Office of Procurement and received general and technical direction from the team leader. They were assigned specific technical and program management

responsibilities within the portfolio, responsibilities such as approving travel, monitoring accruals, handling personnel issues, providing technical advice to implementers, providing input, and overseeing the activities as they relate to obtaining the results/objectives of the activities. They were also responsible for reviewing all reports (e.g., progress reports and quarterly and annual financial reports) submitted by the implementers. Those activities, for which the LAC Bureau provided field support, were managed by CTOs of the Bureaus from which the funds had been transferred. Also, as part of management oversight, the director of the Bureau under the Regional Sustainable Development (RSD) Office conducted annual portfolio reviews for all activities managed by LAC/RSD. This was an important mechanism for keeping RSD management involved in the overall monitoring of the LAC/RSD regional program and provided the opportunity to raise any issues that required a decision or corrective action that had not already been addressed.

The team leaders and CTOs also worked closely with other offices within both the LAC Bureau and other bureaus. In some cases, the strategic objective teams had independent contractors who performed monitoring and evaluation activities. These contractors, experts in data development and quality control, also assisted the team with their reporting requirements. The teams were responsible for reporting activities through the Annual Report and a variety of other USAID reporting requirements.

The team leaders and the CTOs managed and monitored LAC Bureau activities through the following mechanisms:

- Data Quality Assessments
- Work Plans
- Performance Monitoring Plans
- Progress and Financial Reports
- Field Visits

Data Quality assessments were used by the strategic objective team leaders to determine the appropriateness and validity of reporting indicators. As previously stated, independent contractors were sometimes used to assist the teams in conducting and maintaining data quality and conducting assessments. To verify the data quality, the teams also examined the consistency among various data sources independently of the contractor.

Work plans, as previously stated, were developed by the implementer and approved by USAID. The teams used these plans extensively to manage activities, especially for cooperative agreements and grants. Work plans were used to provide detailed plans of activities and develop progress and success

benchmarks for the upcoming year. The work plans also served to inform the teams and the missions of proposed activities. In some instances, LAC missions were also consulted in the formulation of the work plan. The responsible CTO reviewed the work plans to ensure that they were consistent with LAC and mission objectives and made suggestions for modification.

Performance Monitoring Plans were prepared by the strategic objective teams. The plans identified the performance indicators, the source of the data to be collected, the approach for reviewing the data, and the person responsible for collecting and reviewing the information for each performance indicator. The plans were also used to assess and report progress in achieving objectives and to ensure that lessons learned and program successes were captured. Through the monitoring plans the CTOs were able to track progress toward the strategic objective and intermediate results level indicators.

The strategic objective teams regularly used progress reports and financial reports to monitor the activities. As previously stated, the implementers were required to submit progress, quarterly, and annual financial reports which were then used by the teams to prepare and record quarterly accruals and assess timing for preparation of project close-outs. Those activities for which the LAC Bureau provided field support, the implementing partners submitted the progress and financial reports to the CTO of the bureau for which the funds had been transferred as well as to the LAC Bureau.

Field visits were an important aspect of monitoring and supervising the performance of the implementing partners. However, due to funding constraints, very seldom did strategic objective teams participate in field visits. The field visits were often performed by the missions on behalf of the LAC Bureau, and the results of the visits were reported to the LAC Bureau.

Did the Bureau for Latin America and the Caribbean ensure that financial audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies?

The Bureau for Latin America and the Caribbean did not ensure that financial audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies.

As of March 22, 2004, six non-U.S. based organizations required audits to be conducted in accordance with the Guidelines for Financial Audits Conducted by Foreign Recipients (Guidelines) published by the Office of Inspector General (OIG). The following paragraphs discuss the audits that have not been conducted and the audit reports that have not been submitted to the OIG.

Financial Audit Policies Were Not Followed

According to the Automated Directive System 303.3.c, “Grants and Cooperative Agreements to Non-Governmental Organizations,” the CTO is responsible for ensuring that USAID exercises prudent management over specific assistance awards by monitoring and evaluating the recipient and the recipient’s performance during the award. In order to facilitate the attainment of program objectives, the CTO should review and analyze all performance and financial reports as well as verify timely delivery of reports. Additionally, the CTO should ensure compliance with the terms and conditions of the award.

Furthermore, according to the Guidelines, final audit reports must be submitted to the Regional Inspector General (RIG) for review and release. The RIG must receive the audit report no later than nine months after the end of the audited period. Table 2 below summarizes the audits conducted and audit reports submitted to the OIG.

Table 2 - Required Audits Conducted and Submitted to OIG

Name of Organization	Audit Conducted/Contracted FY 2002 and FY 2003	Submitted to OIG
Inter-American Institute of Human Rights – Promoting Human Rights	Yes	No
Inter-American Institute of Human Rights – Victims of Torture	No	No
FEMICA	Yes	No
University of the West Indies	No	No
Universidad Peruana	No	No
Universidad Pedagogica	No	No

As the table above shows, of the six foreign nonprofit organizations we reviewed, four did not have a fund accountability statement audit for fiscal year 2002 and had not contracted for an audit for fiscal year 2003. Moreover, the LAC Bureau did not submit the two audits that were conducted as required to the OIG.

While the LAC Bureau received two audit reports, the Bureau had overlooked obtaining audit reports from the four organizations mentioned above as well as submitting the two audit reports it had received to the OIG. Not conducting audits and not submitting audit reports to the OIG for organizations receiving USAID funds could result in the misuse of USAID funds by the recipient organizations.

Recommendation No. 1: We recommend that the Bureau for Latin America and the Caribbean: (a) send the two audit reports received to the Office of Inspector General and (b) obtain fund accountability audit reports for the four organizations that have not conducted audits for fiscal years 2002 and 2003 and submit those audit reports to the Office of Inspector General.

**Management
Comments
and Our
Evaluation**

In responding to our draft report, the LAC Bureau disagreed with part of our recommendation and had some factual corrections. Based upon further research, we agreed with its comments and made the appropriate changes to the final report. The LAC Bureau subsequently agreed with the report, including the revised recommendation, and has already taken action on part A of the recommendation. Part A of the recommendation is closed upon issuance of this report. A management decision was made for part B of the recommendation. The Mission's comments are included in their entirety in Appendix II.

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

We audited the regional activities administered by USAID's Bureau for Latin America and the Caribbean (LAC) in accordance with generally accepted government auditing standards at USAID/Washington from March 22, 2004 to April 2, 2004.

The audit focused on (1) what regional activities were funded by the Bureau for Latin America and the Caribbean; (2) how the Bureau for Latin America and the Caribbean managed its regional activities and what responsibilities were assigned to others; and (3) whether the Bureau for Latin America and the Caribbean ensured audits were conducted for its centrally funded awards to non-U.S. based recipients in accordance with USAID policies.

In conducting our audit, we assessed the effectiveness of the Bureau for Latin America and the Caribbean's management controls designed to ensure that all required audits of non-U.S. based recipients were conducted. Management controls included maintaining a list of all required audits and forwarding audit reports to the Office of Inspector General. As objectives one and two were descriptive in nature, our assessment of management controls was only applied to objective three.

For objectives one and two, the audit covered all activities currently funded by the Bureau for Latin America and the Caribbean as of the first day of fieldwork, March 22, 2004. Life of project funding for those activities totaled approximately \$115 million.

For objective three, the audit covered all non-U.S. based recipients who expended \$300,000 or more in USAID funds in fiscal year 2002 and fiscal year 2003.

Our audit did not include reviewing the quality of the audit reports.

Methodology

To answer audit objectives one and two, we obtained information regarding the Bureau's organization, staffing, and responsibilities. We interviewed the team leaders of each strategic objective team, as well as Cognizant Technical Officers, and other LAC Bureau officials. We reviewed financial reports, the Congressional Budget Justification, and other relevant documents.

To answer audit objective three, we reviewed audit reports of all non-U.S. organizations requiring audits for fiscal year 2002 and fiscal year 2003. There were six organizations in total.

For objectives one and two, we did not express an opinion as both objectives were descriptive in nature.

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

- An unqualified opinion would be issued if all audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.
- A qualified opinion would be issued if 95 percent to 99 percent of the audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.
- An adverse opinion would be issued if less than 95 percent of the audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.

**Management
Comments**

MEMORANDUM

DATE: May 24, 2004

TO: Acting RIG/San Salvador, John Vernon

FROM: Director LAC/RSD, Cecily Mango

SUBJECT: Response to audit finding for the regional activities administered by the Bureau for Latin America and the Caribbean (Report No. 1-527-04-00X-P)

Thank-you for sending us your draft report on the subject audit. We have reviewed it carefully and appreciate the opportunity to respond to the audit recommendation and propose some factual corrections.

A) USAID Response to Audit Recommendation

The recommendation states that the Bureau for Latin America and the Caribbean should:

- 1) Obtain fund accountability audit reports for the four organizations who have not conducted audits for fiscal years 2002 and 2003. According to Table 2 on Page 15 of your draft report, the organizations are; the Inter-American Institute of Human Rights – Victims of Torture, the University of the West Indies, the Universidad Peruana, and the Universidad Pedagogica.
- 2) Submit those audit reports to the Office of the Inspector General.
- 3) Establish a procedure to ensure that all required audit reports are received from USAID’s Bureau for Management/Office of Procurement.

With regard to points (1) and (2) above, attached (Appendix 1) is the fund accountability statement produced by KPMG for the Inter-American Institute of Human Rights for the period of 15 months ending December 31, 2003 for OIG review and release. The report is dated April 16, 2004.

Also attached (Appendix 2) is a financial status report as of December 31, 2002 showing that Universidad Peruana expended \$141,185.57 in Federal funds from September 26, 2002 (the start of the agreement) to December 31, 2002. As this amount is less than \$300,000, a fund accountability report for FY 2002 was not required. The fund accountability report for Universidad Peruana covering the period Sept. 26, 2002 through

December 31, 2003 is currently being prepared and we anticipate delivering it to the OIG for review and release in August 2004 which is before the nine month timeframe laid out in the “Guidelines for Financial Audits Contracted by Foreign Recipients.”

The fiscal year for the Universidad Pedagogica Nacional Francisco Morazan runs from October 1st to September 30th. The agreement was awarded in September 2002 and thus the first financial status report will be for the period ending on September 30, 2003. Through September 30, 2003, \$851,079.16 was expended. A financial status report is in the process of being prepared and we anticipate submitting it to the OIG for review and release by the end of June 2004. This is within the timeframe established in the “Guidelines for Financial Audits Contracted by Foreign Recipients.”

With regard to the University of the West Indies (UWI), its fiscal year runs from August 1st to July 31st. The agreement to UWI was awarded on September 26, 2002. From September 26, 2002 to July 31, 2003, \$396,525 in Federal funds was expended which requires an audited financial status report. On May 13, 2004, a request for proposal was sent to audit firms to bid on a financial status report that would cover the period September 26, 2002 through July 31, 2004. Work is expected to begin on July 1, 2004 and be completed in September of this year.

At this time, we are also enclosing the following audited financial status reports to the OIG for review and release:

- Inter-American Institute of Human Rights – Project “Psychological Support for Victims of Torture” for the period of 15 months ending December 31, 2003 (Appendix 3), and
- FEMICA for the period ending December 31, 2002 (Appendix 4).

Based on the above information, we would appreciate you closing points (1) and (2) of your recommendation.

With regard to point (3), our reading of the ADS clearly shows that the Bureau for Latin America and the Caribbean is not responsible for establishing a procedure for the six organizations in question to ensure that all required audit reports are received from USAID’s Bureau for Management/Office of Procurement.

This is because ADS 591.3.4.2 provides that “...M/OP/PS/CAM must maintain an inventory of foreign organizations receiving centrally funded contracts or grants issued by M/OP, including those in non-presence countries, and ensure that required audits are conducted. Regional and Central Bureaus must maintain an inventory of foreign organizations receiving centrally funded contracts or grants not issued by M/OP, including those in non-presence countries, and ensure that required audits are conducted...”

Our research shows that the agreements with the six organizations listed in Table 2, page 15 of the report were issued by M/OP rather than the LAC Bureau. Supporting

documentation is attached as Appendix 5. Therefore, responsibility for ensuring that audits are conducted rests with M/OP. Thus, the fourth paragraph on page 5 and the narrative on pages 15 and 16 should be changed to reflect the aforementioned requirements of ADS 591.3.4.2. The recommendation should also be modified to show that the Bureau for Latin America and the Caribbean is not responsible for part (c).

B) Proposed Factual Corrections

In reviewing the subject audit, there were a number of factual errors that we would like to correct. They include:

- 1) The first paragraph on page five (and throughout the entire document) refers to the audit as an audit of LAC Bureau activities and how they are managed. The audit was, in fact, limited to LAC Regional activities managed by LAC/RSD and the LAC Strategy and Program Office (SPO). This needs to be corrected to reflect the audit of the LAC Regional program as managed by RSD and SPO only.
- 2) The dollar figure in the last sentence of page 6 should be \$80 million (per the FY 2005 CBJ) and again, the reference to LAC Bureau's program should be corrected to read LAC Regional.
- 3) The table of activities on page 8 and the description of SO 598-018 on page 10 omit any mention of the sub-sector "Trade and Environment." This should be added to both.
- 4) The description of SO 598-023 on page 11 makes no mention of Georgetown University's CASS program. This should be added since it is such a large part of that SO's budget.
- 5) Re the last paragraph on page 12 :
 - (a) Add to end of the first sentence the following: "unless supported by documentation approving a non-competitive award."
 - (b) As stated, the second sentence of this paragraph is not accurate as LAC Bureau management does not meet with representatives from possible implementing organizations to determine the appropriate organization to implement the activities. Team members at times conduct this function. In addition, it should be noted that implementing organizations are also found through the competitive bidding process. We recommend that this sentence be deleted.
 - (c) Add at the end of that paragraph the following: "For awards to Public International Organizations and to other U.S. government agencies under authority of FAA 632(b), the AA/LAC used his delegated authority to sign awards."

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- 6) On page 13 under Reporting/Monitoring, it should be noted that as part of management oversight, the Director of RSD conducts annual portfolio reviews for all activities managed by LAC/RSD. This is an important mechanism for keeping RSD management involved in the overall monitoring of the LAC/RSD Regional program and provides an opportunity to raise any issues that require a decision or corrective action that have not already been brought to light.
 - 7) In the second paragraph of page 14, in the last sentence, delete the phrase "...task order, previous..." as work plans are also reviewed for procurement mechanisms other than task orders.

Activities Funded by LAC Bureau as of March 2004

Strategic Objective/Activity/Implementer		Funding To Date (\$)
598-003 Health		
<i>Maternal Mortality</i>		
	Pan American Health Organization	2,533,032
	University Research Corp. Intl.	1,006,000
<i>Vaccination</i>		
	Pan American Health Organization	7,678,617
<i>Integrated Management of Childhood Diseases</i>		
	Pan American Health Organization	4,299,864
	The Partnership for Child Health Care	1,233,159
<i>HIV/AIDS</i>		
	TvT Associates	812,217
<i>Amazon Malaria</i>		
	Pan American Health Organization	4,291,000
	Centers For Disease Control and Prevention	1,115,000
	National Academy of Sciences	100,000
	Management Sciences For Health	220,000
	US Pharmacopeial Convention Inc.	180,000
<i>Infectious Diseases</i>		
	Pan American Health Organization	2,931,500
	Centers For Disease Control and Prevention	1,130,000
	Management Sciences For Health	954,571
	Tuberculosis Coalition for Technical Assistance	444,500
<i>Health Sector Reform</i>		
	Pan American Health Organization	3,100,700
	ABT Associates Inc.	985,033
	Management Sciences For Health	970,000
	University Research Corp. Intl.	351,000
<i>Family Planning</i>		
	Reproductive Health Operations Research	248,844
	The Population Council	209,844
<i>Technical Advisors and Program Support</i>		
	Center For Development and Population Activities	1,440,000
	The Johns Hopkins University	735,000
	LTG Associates Inc.	400,318
	Jorge Scientific Corp.	180,000
	Public Health Institute	165,000
	U.S. Government Services Administration	8,000
598-005 Regional Democracy Initiatives		
<i>Human Rights/Rule of Law</i>		
	Inter-American Institute of Human Rights	3,451,148
	Department of Justice	1,250,000
	Justice Studies Center of the Americas	710,000
	Pan America Health Organization	206,000
	Organization of American States - Trafficking in Persons	198,400

Public Sector Legitimacy		
	Casals and Associates	4,608,162
	International City and County Management Association	2,484,049
	Federation of Central American Municipalities	1,500,000
	Academy For Educational Development	120,000
	Mitchell A. Selingson	75,000
	Steve Metzger	63,200
Pluralism and Citizen Participation		
	Partners of the Americas	4,089,900
598-017 Market Access		
Asset Related Constraints Reduced		
	ACCION International	2,415,452
	U.S. Department of Agriculture	1,993,239
	Chemonics	1,670,115
	MICRORATE, INC.	300,000
	Pan American Development Foundation	300,000
	InterAmerican Dialogue	216,128
	World Bank	200,000
Business Related Constraints Reduced		
	CARANA Corporation	1,313,843 ²
	UNDP	148,129
	Organization of American States	40,000
598-018 Environmental		
Trade and Environment		
	Organization of American States	665,000
Water and Sanitation		
	Camp Dressler	565,000
Cleaner Production		
	PA Government Associates	731,399
	PADCO	138,990
Advisors		
	U.S. Department of Agriculture	105,000
598-020 Program Development and Learning		
	Academy for Education Development	831,422
	John Snow, Inc.	598,000
	Futures Group	277,795
	LTG Associates Inc.	141,000
	Inter-American Development Bank	50,000
	Norma Jean Parker	19,500
598-021 Advancing Development Cooperation Opportunities in the Hemisphere		
	Alfalit International, Inc.	1,846,064
	United Negro College Fund	400,000
	St. Michaels College	150,000
	Academy for Education Development	97,000
598-022 Conservation of Biological Resources		
Parks in Peril		
	The Nature Conservancy	10,500,000
Technical Advisors		
	U.S. Department of Agriculture	1,067,250
	U.S. Department of Agriculture – Forest Service	150,000

² This amount also includes funding for projects under the Assets Related Constraints Reduced activity.

598-023 Education and Training		
<i>Improving the Environment for Education Reform</i>		
	Inter-American Dialogue	3,559,974
	Creative Associates	900,000 ³
	Aquirre International	1,684,799 ⁴
	Academy for Educational Development	1,300,000
<i>Improving the Skills of Teachers and Administrators</i>		
	Universidad Pedagogica Nacional Francisco Morazan	6,100,000
	University of the West Indies	4,000,000
	University Peruana Cayetano Heredia	3,000,000
	International Medical Services for Health, Inc.	2,250,000
<i>Improving the Relevance and Skills of the Workforce</i>		
	Georgetown University Center for Intercultural Education and Development	7,740,000
<i>Advisors</i>		
	Center For Development and Population Activities	860,000
	U.S. Department of Agriculture	211,698
598-024 Health Advancement⁵		-
Total Funding To Date		115,015,855

Note: Amounts were not audited.

³ This amount also includes funding for projects under the Improving the Skills of Teachers and Administrators activity.

⁴ This amount also includes funding for projects under the Improving the Skills of Teachers and Administrators activity.

⁵ As stated previously, this strategic objective will be implemented in fiscal year 2004. As of March 2004, no funding has been authorized. Amount budgeted for this strategic objective in fiscal year 2004 is \$6,400,000.