



Accounting and Information  
Management Division

B-256360

March 30, 1994

The Honorable John Glenn  
Chairman, Committee On Governmental Affairs  
United States Senate

Dear Mr. Chairman:

You asked us to review various aspects of the Office of Inspector General (OIG) at the Agency for International Development (AID), including the OIG's independence, the OIG's audit and investigative coverage of AID's programs and operations, and the relationship between the OIG and AID employees. On September 14, 1993, we briefed your office on the results of our review. This report summarizes that briefing and subsequent discussions with your office.

Our review was designed to evaluate the OIG's management and operation. Accordingly, we

- examined the OIG's policies and procedures for planning and conducting its work,
- identified the audit work that the OIG planned and performed in AID's high-risk areas and in areas with internal control weaknesses (as reported by the Office of Management and Budget, us, the OIG, and other sources), and
- reviewed a sample of 10 audit reports and 28 closed investigations.

Also, at your request, we reviewed certain concerns the American Foreign Service Association (AFSA) raised in its February 20, 1992, letter to the AID Administrator, including its concerns over the OIG's use of management representation letters in conducting audits. On October 1, 1993, we discussed our work with your office and representatives of AFSA.

We met with and interviewed senior officials of AID and the OIG, including the Inspector General and the former Administrator. We also met with and interviewed staff of the OIG Offices of Audit and Investigations and representatives of AFSA. In addition, we interviewed four assistant U.S. attorneys who had handled cases referred by the AID OIG that had been accepted for prosecution.

#### INDEPENDENCE

We did not find any impediments to the OIG freely fulfilling its responsibilities without interference from AID's top management. The OIG makes its own personnel decisions, exercises control over its audit and investigative work plans, prepares and issues reports without agency approval, independently determines when its recommendations have been implemented, and refers investigations of prosecutorial matters directly to U.S. attorneys.

#### FOCUS AND QUALITY OF AUDIT WORK

The OIG has addressed the agency areas which we and others identified as being high risk or lacking adequate internal controls. For example, in the second half of fiscal year 1992, 15 of the 31 audit reports issued by the OIG covered areas identified as being high risk or having material weaknesses. Also, for fiscal year 1993, the OIG's audit plan directed almost half of its audit resources to several worldwide audit areas identified as high risk. In a June 1993 report,<sup>1</sup> we stated that "[t]he AID Inspector General has repeatedly identified long-standing serious management and accountability problems that mirror the ones we have identified."

In reviewing a sample of 10 OIG audit reports, we found that the reports generally presented information fairly, identified problems, contained numerous constructive recommendations for improving AID's operations, and contained statements on the views of appropriate agency officials. Each report also stated the objective, scope, and methodology of each audit.

---

<sup>1</sup>Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-94-106, June 11, 1993).

For example, one of the reports in an area of high risk that we reviewed was Audit of USAID/Egypt's Basic Education Project No. 263-0139 (OIG Report 6-263-92-04, March 26, 1992). The report's stated audit objectives were to determine the reported progress of the project and whether USAID/Egypt monitored the project construction and accounting for AID financed materials and equipment in accordance with the grant agreement, AID handbooks, and other applicable requirements. The report credits AID with making schools available in parts of Egypt where there were none before. However, the report also states that AID did not provide the necessary monitoring and reporting systems to ensure that schools were properly constructed and maintained. This resulted in widespread substandard construction, lack of maintenance, lack of basic utilities, and limited utilization of educational equipment. In the agency's comments, which were included as an appendix to the report, AID management agreed with all seven recommendations made in the report and indicated that extensive efforts had already been taken to implement them.

#### FOCUS AND QUALITY OF INVESTIGATIVE WORK

Our review of 28 closed investigations primarily involved the examination of materials in the case files, including progress reports, interviews, and other documents. The case files show that the investigations appeared to result from reasonable complaints and generally were performed thoroughly. The four assistant U.S. attorneys we contacted identified no problems with either the competence of the OIG investigators or the quality of their work on cases accepted for prosecution.

Our review of the case files, though, showed that some documents, such as investigative plans and reports of interviews, were missing. In addition, our review of one case disclosed that the AID Inspector General issued letters (1) admonishing an OIG investigator for creating an appearance of a conflict of interest and (2) reminding the Assistant IG for Investigations of his responsibility for ensuring that investigative staff avoid creating such conflicts. Conflict of interest is one of the areas that was brought to our attention by AFSA.

### REPRESENTATION LETTERS

Since July 1, 1991, the OIG has often asked that agency officials provide management representation letters in connection with performance audits conducted by the OIG. During an audit, management makes many representations to auditors in response to specific inquiries or through other means. Government Auditing Standards<sup>2</sup> requires that auditors obtain written representations from management when performing financial audits and encourages auditors, when they deem it useful, to obtain written representations when performing performance audits. The specific written representations obtained by the auditor depend on the circumstances of the audit and could include, for example, representations as to the availability of all pertinent records, compliance with regulations, and plans or intentions with respect to resources.

In the February 20, 1992, letter to the AID Administrator, AFSA expressed concerns that representation letters have intimidated employees, because employees feared that the letters could be used against them. Thus, the OIG has been explaining to AID's managers and employees the purpose and use of representation letters. In its April 1992 pamphlet, "Understanding Audit in A.I.D.," the OIG discussed what a management representation letter is and the types of information that management would typically be requested to confirm in such letters.

### MANAGERIAL AND OPERATIONAL CHANGES AT AID

Many of the concerns raised by AFSA in its February 20, 1992, letter to the AID Administrator dealt with the effectiveness of the working relationships between the OIG and AID management and within the OIG. During the course of our review, we developed survey instruments designed primarily to focus on those relationships. However, since we began our review, AID and the AID OIG have undergone significant

---

<sup>2</sup>Comptroller General's Government Auditing Standards, 1988 revision.

managerial and operational changes. AID has a new Administrator, and the OIG has new Assistant IGs for Audit and Investigations.

Also, during the time of our review, the OIG Office of Investigations changed certain policies and procedures to improve its operations. For example, the methods for controlling the initiation of investigations and decisions on criminal referrals were changed from a decentralized, region-by-region process to a centralized operation in the OIG's Washington headquarters. This increased attention by headquarters should help prevent conflicts of interest or the appearance of such conflicts, which has been one of the concerns of AFSA. Also, any criminal allegations made against OIG investigators, which previously may have been reviewed internally, are now referred to another federal agency's OIG.

Further, in early July 1993, it became public knowledge that draft AID task force report had concluded that AID should be substantially restructured and should operate in fewer countries. The draft report also noted that the AID Administrator had indicated that AID's operating budget would allow it to remain in about 50 countries, not the 108 countries in which the agency had programs. In late July, AID employees were informed by the Administrator that some jobs will be phased out and that personnel changes, where possible will be accomplished through attrition, reassignments, and additional training. Because of these ongoing significant managerial and operational dynamics, and the possible consequences of such changes on AID operations and employee attitudes, we decided against using the survey instruments.

- - - - -

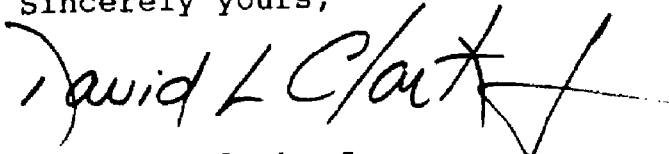
As a result of our work, and as stated during our September 14, 1993, briefing and subsequent discussions with your office, we found no basis to warrant further testing of the OIG's operations now.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of issuance. At that time

B-256360

we will send copies to the AID Administrator, the AID Inspector General, the American Foreign Service Association, and interested congressional committees. We will also make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink that reads "David L. Clark, Jr." with a stylized flourish at the end.

David L. Clark, Jr.  
Director, Legislative Reviews  
and Audit Oversight

(911684)

GAO/AIMD-94-74R AID Office of Inspector Gene