



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

April 26, 2007

MEMORANDUM

TO: USAID/West Bank and Gaza Mission Director, Howard Sumka

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

SUBJECT: Information on Status and Results of the First 90 Financial Audits of USAID/West Bank and Gaza Activities in Accordance with the Statutory Requirements of the Consolidated Appropriations Acts of 2003, 2004, 2005, and 2006
(Report No. 6-294-07-001-S)

This memorandum transmits our final report on the status and results of financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the Consolidated Appropriations Acts of 2003, 2004, 2005, and 2006. This is not an audit report, and the report does not contain suggestions or recommendations. In finalizing our report, we considered your comments on our draft report and have included your response in its entirety in Appendix II.

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 third 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 and second report on the first 60 audit reports on August 15, 2006.²

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 90 financial audits of USAID/West Bank and Gaza activities in accordance with the statutory requirements of the Consolidated 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."

² Audit Report No. 6-294-06-002-S, "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."

DISCUSSION

As of March 11, 2007, USAID had procured 167 financial audits, and the Office of Inspector General had released 90 final audit reports. Appendix I provides a list of these 90 final reports. As required by the legislation, USAID is procuring additional audits in fiscal year 2007.

Questioned Costs

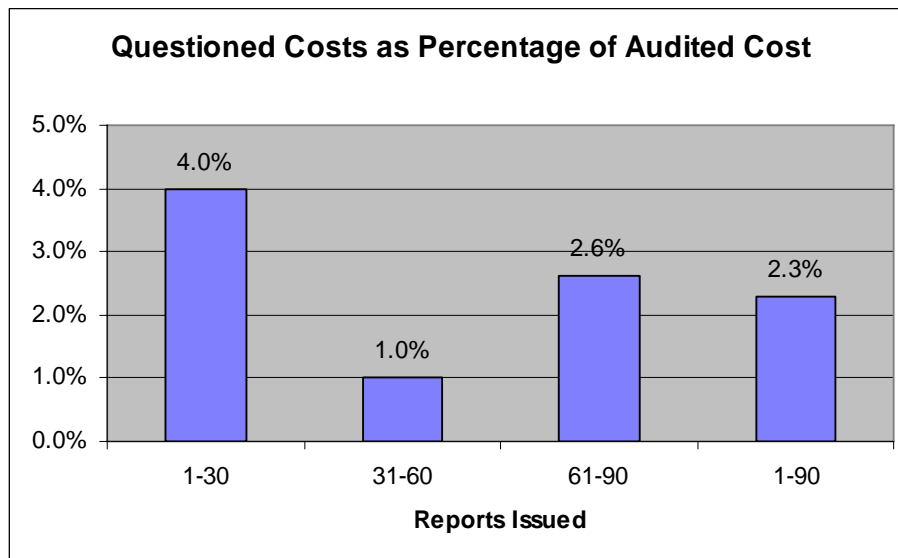
As shown in Table 1, the first 90 financial audits resulted in \$4.8 million in questioned costs out of \$209 million audited. Of the 90 audits, the first 30 audits resulted in questioned costs of \$2.0 million, the next 30 audits resulted in questioned costs of \$848 thousand while the last 30 audits resulted in \$1.9 million in questioned costs. The overall costs audited increased from \$50 million on the first 30 to \$84 million for the second 30 audits; however, it decreased from \$84 million on the second 30 audits to \$74 million for the third 30 audits.

Table 1: Questioned Costs

| Reports Issued | Unsupported ³ Questioned Costs | Ineligible ⁴ 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 |
| 61-90 | \$18,602 | \$1,914,737 | \$1,933,339 | \$74,093,312 |
| TOTAL | \$555,008 | \$4,238,435 | \$4,793,443 | \$208,951,730 |

The overall \$4.8 million in questioned costs (from 50 of the 90 audit reports) were 2.3 percent of the total audited costs. The questioned costs represent 4.0 percent for the first 30 audits, 1.0 percent for the second 30 audits, and 2.6 percent for the third 30 audits as shown in Chart 1 below.

Chart 1: Questioned Costs as a Percentage of Audited Costs



³ Unsupported questioned costs are costs which lacked adequate documentation or required prior approvals or authorizations.

⁴ 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

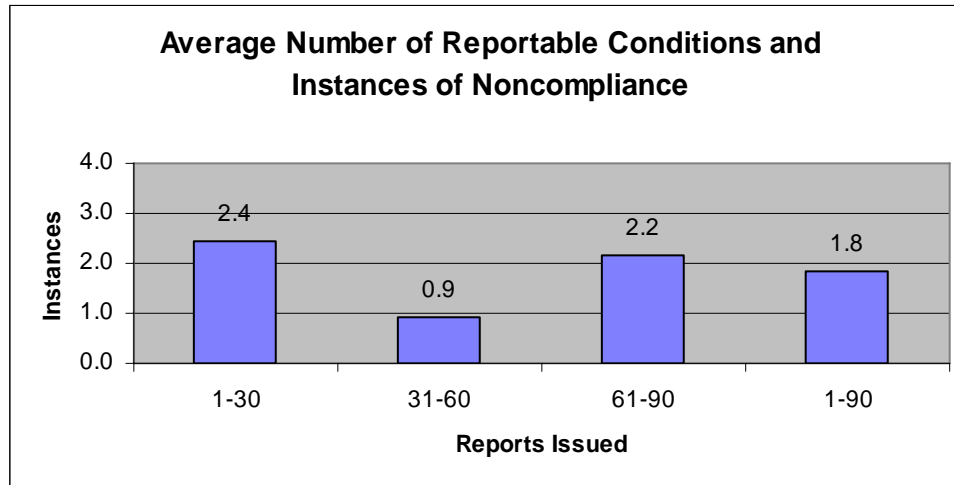
In addition to questioned costs, the 90 financial audits disclosed 52 reportable conditions in internal control⁵ and 114 material instances of noncompliance⁶ with agreement terms and applicable laws and regulations. Five of the 90 audits disclosed 35 of the 52 reportable conditions, and 11 of the 90 financial audits disclosed 54 of the 114 material instances of noncompliance. As shown in Table 2, the first 30 audits reported 73 reportable conditions and instances of noncompliance, the second 30 audits reported 28, while the third 30 audits reported 65.

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

| Reports Issued | Reportable Conditions in Internal Control | Material Instances of Noncompliance | Total |
|----------------|---|-------------------------------------|------------|
| 1-30 | 28 | 45 | 73 |
| 31-60 | 5 | 23 | 28 |
| 61-90 | 19 | 46 | 65 |
| Total | 52 | 114 | 166 |

As shown in Chart 2, the average number of reportable conditions and material instances of noncompliance was 1.8 per report for the first 90 audits—an average of 2.4 instances for the first 30 audits, 0.9 for the second 30 audits, and 2.2 for the third 30 audits. Forty-one of the 90 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



⁵ 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.

⁶ 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 90 financial audit reports of USAID/West Bank and Gaza activities conducted in accordance with the statutory requirements of the Consolidated 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 third 30 audit reports that were released to the Mission, 23 of these reports included 43 recommendations; 16 recommendations were related to questioned costs, and 27 were related to internal control and compliance issues.
- For the status of the questioned costs of \$1,933,339 for the third 30 audit reports, \$164,141 were costs disallowed and collected from recipients, \$23,169 were costs allowed by the Mission, and \$1,746,029 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 27 recommendations relating to internal control and compliance issues, in 19 cases the Mission agreed with the recommendations and took corrective actions, in 1 case the Mission found that the contractor was in compliance with the agreement terms and applicable laws and regulations, and in 7 cases the Mission is in the process of making a management decision.
- 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 90 Financial Audits

| # | Report Number | Recipient | Total Questioned Costs | Total Costs Audited | Reportable Conditions in Internal Control and Material Instances of Noncompliance |
|--------|---|--|------------------------|---------------------|---|
| 1 - 30 | <i>Various - See footnote 1 on page 2</i> | Subtotal | \$2,012,111 | \$50,490,616 | 73 |
| 31- 60 | <i>Various - See footnote 2 on page 2</i> | Sub-total | \$847,993 | \$84,367,802 | 28 |
| 61 | 6-294-06-012-N | USAID Resources Managed by World Vision Inc. | \$0 | \$1,695,576 | 0 |
| 62 | 6-294-06-013-N | USAID Resources Managed by Nathan-MSI Group | \$36,496 | \$916,761 | 2 |
| 63 | 6-294-06-014-N | USAID Resources Managed by CH2M Hill | \$1,327,312 | \$17,790,552 | 9 |
| 64 | 6-294-06-015-N | USAID Resources Managed by Palestine for Credit and Development | \$0 | \$2,228,356 | 0 |
| 65 | 6-294-06-017-N | West Bank and Gaza's Emergency Roads Rehabilitation Project Phase I | \$0 | \$9,012,089 | 3 |
| 66 | 6-294-06-018-N | Catholic Relief Services Jerusalem, West bank, and Gaza, under USAID award NOS. | \$51,670 | \$3,863,723 | 6 |
| 67 | 6-294-06-019-N | CH2Hill's Integrated Water Resources (Phase II) | \$26,392 | \$956,192 | 5 |
| 68 | 6-294-07-001-N | Academy for Educational Development "Support to local initiatives for Non-Violent Conflict resolution" | \$0 | \$177,085 | 1 |
| 69 | 6-294-07-002-N | Academy for Educational Development "Higher Education Support Initiative" | \$0 | \$906,377 | 0 |
| 70 | 6-294-07-003-N | Financial Markets International "Commercial Transparency, Capital Market Initiative Program" | \$52,030 | \$623,865 | 4 |
| 71 | 6-294-07-004-N | Financial Markets International "Financial Markets Reform Program - Phase II for USAID West Bank and Gaza" | \$7,515 | \$475,941 | 3 |

APPENDIX I

| # | Report Number | Recipient | Total Questioned Costs | Total Costs Audited | Reportable Conditions in Internal Control and Material Instances of Noncompliance |
|----------|----------------------|--|-------------------------------|----------------------------|--|
| 72 | 6-294-07-005-N | American Near East Refugee Aid Implemented by Israel Palestine Centre for Research and Information | \$0 | \$187,679 | 1 |
| 73 | 6-294-07-006-N | Ma'an Development Center Sub-Grant under World Vision Cooperative | \$4,589 | \$353,518 | 0 |
| 74 | 6-294-07-007-N | Academy for Educational Development "The Presidential Scholarship Program" | \$5,130 | \$295,216 | 2 |
| 75 | 6-294-07-008-N | An-Nuweil'meh Charitables Society's Compliance with Grant Terms and Conditions awarded by associates in Rural Development Inc. | \$0 | \$248,697 | 0 |
| 76 | 6-294-07-009-N | Beit Lahiya Development Association's Compliance with Grant Terms and Conditions Awarded by Associates in Rural Development Inc. | \$0 | \$222,941 | 0 |
| 77 | 6-294-07-010-N | Elderly Home Charitable Society's Compliance | \$0 | \$426,942 | 0 |
| 78 | 6-294-07-011-N | Save the Children Cooperative "Community Psychosocial Support Program" | \$0 | \$1,661,462 | 0 |
| 79 | 6-294-07-012-N | Palestinian Early Childhood Educational Program's Compliance | \$0 | \$221,451 | 5 |
| 80 | 6-294-07-013-N | Save the Children Federation - "Palestinian Infrastructure for needed Employment Program" | \$0 | \$233,892 | 0 |
| 81 | 6-294-07-014-N | Palestinian Trade Center | \$3,488 | \$606,901 | 1 |
| 82 | 6-294-07-015-N | Save the Children Federation "Job Opportunities Through development of Small Scale Basic Community Infrastructure Program" | \$28,022 | \$4,445,571 | 1 |
| 83 | 6-294-07-016-N | Camp Dresser & McKee International Inc. | \$1,485 | \$3,251,796 | 2 |
| 84 | 6-294-07-017-N | Camp Dresser & McKee International Inc. | \$230,241 | \$6,254,459 | 3 |
| 85 | 6-294-07-018-N | Camp Dresser & McKee International Inc. | \$53,917 | \$1,733,799 | 2 |

APPENDIX I

| # | Report Number | Recipient | Total Questioned Costs | Total Costs Audited | Reportable Conditions in Internal Control and Material Instances of Noncompliance |
|----|----------------|---|------------------------|----------------------|---|
| 86 | 6-294-07-019-N | Intercontinental Constructors, LLC | \$0 | \$2,943,014 | 3 |
| 87 | 6-294-07-020-N | Arar General Contracting Company's | \$0 | \$309,193 | 2 |
| 88 | 6-294-07-021-N | IBM Corporation | \$6,574 | \$8,335,182 | 2 |
| 89 | 6-294-07-022-N | Chemonics International Incorporated | \$0 | \$379,785 | 2 |
| 90 | 6-294-07-023-N | CH2MHill Integrated Water Resources (Phase III) | \$98,478 | \$3,335,297 | 6 |
| | | Sub Totals (61-90 reports) | \$1,933,339 | \$74,093,312 | 65 |
| | | Grand Total | \$4,793,443 | \$208,951,730 | 166 |

MANAGEMENT COMMENTS



MEMORANDUM

DATE: March 27, 2007

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

FROM: Howard Sumka, Mission Director / USAID West Bank and Gaza /s

SUBJECT: Information on status and results of the first 90 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. 6-294-07-00x-S)**

Reference: Pritchard / Sumka memorandum dated 3/19/07

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 90 financial audits of USAID West Bank and Gaza activities. We have reviewed the subject report and have the following comments with regard to the additional 30 audits covered by this report:

Of the 30 audit reports that were released to the Mission since the last status report, 23 reports included 43 recommendations; 16 recommendations were related to questioned costs and 27 were related to internal control and compliance issues. 17 recommendations have been closed by M/CFO/APC. A management decision has been reached with RIG/C for 13 recommendations which are pending final action. The Mission is in the process of drafting the Contracting Officer's determination for the remaining 13 recommendations.

Regarding questioned costs in the total amount of \$1,933,339, the status of these costs is as follows:

| | |
|----------------------------|---|
| <u>61 - 90</u> | |
| 164,141 | Costs disallowed and collected from recipients |
| 23,169 | Costs allowed by the Contracting / Agreement Officer |
| 1,746,029 | Costs outstanding pending the Mission reaching a management decision with RIG/C |
| <u>\$ 1,933,339</u> | Total |

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

The status of recommendations relating to internal control and compliance issues is as follows:

- 19 Contracting/Agreement Officer agreed with the recommendations and corrective action has already been taken or is in process.
- 1 Contracting/Agreement Officer found that the contractor was in compliance with the agreement terms and/or applicable laws and regulations and there were no internal control deficiencies.
- 7 Contracting/Agreement Officer is in the process of making a management decision.

27 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”, weak accounting system and controls, and lack of monitoring of sub-recipients.

Based on the relative immateriality of the questioned costs and the general findings on internal controls and compliance, we assess the risk level as low. Nevertheless, the Mission is taking all appropriate measures to ensure compliance by its contractors and grantees and follow up to ensure that management decisions are agreed with RIG/C and recommendations are closed within targeted deadlines.