

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Larry Garber

FROM: Acting RIG/Cairo, Thomas C. Asmus

SUBJECT: Audit of USAID/West Bank and Gaza's Implementation of the Federal Managers' Financial Integrity Act

This is our final report on the subject audit. We reviewed your comments to the draft report and have included them as Appendix II. Based on the Mission's comments, we consider that final action has been taken on the report's four recommendations and, hence, they are closed upon report issuance.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and controls. This law encompasses program, operational and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123¹ to provide detailed guidance for federal managers to use in designing management structures that help ensure accountability and include appropriate cost-effective controls.

The FMFIA also requires the U.S. General Accounting Office (GAO) to issue standards for internal control in the U.S. Government. Fundamentally, managers use a variety of controls, such as the policies and procedures that enforce management directives, to provide reasonable assurance that an agency can meet its objectives. These control activities help ensure that management takes action to address the risk factors that jeopardize an organization's achievement of its goals. Certain categories of control activities are common to all agencies and include appropriate documentation and the proper execution and accurate and timely recording of transactions and events.

OMB Circular No. A-123 states that management controls are the organization, policies and procedures used to reasonably ensure that:

¹ OMB Circular A-123, Management Accountability and Control.

- Programs achieve their intended results.
- Resources are used consistent with agency mission.
- Programs and resources are protected from waste, fraud and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported, and used for decision making.

In addition, the Circular provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations.

USAID Automated Directives System Chapter 596, Management Accountability and Control, (ADS 596) also provides policy and procedures for establishing, assessing, reporting on, and correcting management controls under the FMFIA and OMB Circular No. A-123. Finally, the USAID Bureau for Management, Office of Management Planning and Innovation (M/MPI) provides additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls.

Audit Objectives

The Office of Regional Inspector General/Cairo audited USAID/West Bank and Gaza as part of the worldwide audit to analyze the extent to which USAID has established a management process that satisfies the requirements of the Federal Managers' Financial Integrity Act. The specific audit objectives were:

- **Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/West Bank and Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

Appendix I includes a discussion of the audit scope and methodology.

Audit Findings

Has USAID/West Bank and Gaza established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza generally established management controls and periodically assessed those controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance. However, the Mission's assessments did not identify all the weaknesses the Mission was aware of, and certain management control checklist questions were not answered or fully answered.

The FMFIA and OMB Circular No. A-123 provide guidance for agencies and managers to establish management controls and to periodically assess the adequacy of those controls. Further, ADS 596 instructs missions and managers to:

- appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission,
- ensure that appropriate and cost-effective management controls are established,
- continuously perform management control assessments in accordance with instructions issued by M/MPI, and
- establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI annually provides guidance to missions for conducting FMFIA reviews. This guidance instructs missions to supplement management's judgment in assessing the adequacy of management controls with existing sources of information, such as:

- Knowledge gained from daily operation of USAID programs and systems.
- Management reviews.
- Office of Inspector General and GAO reports.
- Program evaluations.

M/MPI also has provided Management Control Checklists to assist in conducting the reviews. The fiscal year (FY) 1999 Checklist contained 189 control techniques extracted from the ADS, as shown in the following table.

<i>CONTROL TECHNIQUES</i>	
<i>CATEGORY</i>	<i>NUMBER</i>
<i>Program Assistance</i>	<i>42</i>
<i>Organization Management</i>	<i>7</i>
<i>Administrative Management</i>	<i>38</i>
<i>Financial Management</i>	<i>52</i>
<i>Acquisition and Assistance</i>	<i>42</i>
<i>Audit Management and Resolution</i>	<i>5</i>
<i>Other</i>	<i>3</i>
<i>TOTAL</i>	<i>189</i>

Generally, the Mission followed ADS policies and procedures on establishing management controls and assessing their adequacy. When deemed necessary, the Mission issued mission orders to complement or further clarify the ADS and to establish any needed policies, procedures and systems. For example, in August 1999, it issued a mission order establishing a travel reimbursement policy for authorized travel in Israel, including the West Bank and Gaza, and Jerusalem. Also, in February 2000, the Mission issued an order² to establish procedures and responsibilities for implementing the Audit Management Resolution Program (AMRP), which, among other things, formally established the Mission's MCRC.

Prior to February 2000, the Mission had not established an MCRC. However, in completing its FY1999 and FY1998 FMFIA assessments, USAID/West Bank and Gaza had informally established an MCRC and designated the Controller as the Audit Management Officer. The FY1999 FMFIA assessment was performed and reviewed by this MCRC that consisted of staffs from the financial management office, executive office, contract office, program office and deputy director's office. The heads of those offices completed various parts of the M/MPI checklist on control techniques.

Each member of the MCRC determined whether the controls in their areas of responsibility were satisfactory, and a consolidated checklist with all the members' responses was circulated for comment. All MCRC members reviewed the FY1999 FMFIA assessment, discussed the

² Mission Order No. 6, Management Control and Review Committee.

control techniques, and determined which identified internal control deficiencies were material. The members concluded that there were four material weaknesses in FY1999.

Although the Mission appropriately established management controls and periodically assessed those controls, it should have taken a more thorough, better-organized approach in completing its FY1999 FMFIA assessment. Our audit noted two areas that need to be improved for future assessments: identification of control weaknesses, and answering management control questions.

Identify All Weaknesses

The GAO Standards for Internal Control in the Federal Government (GAO Standard) states that management needs to comprehensively identify risks. Also, OMB Circular A-123,³ states that managers should continuously monitor and improve the effectiveness of management controls associated with their programs and determine the appropriate level of documentation needed to support their assessment of risk. Lastly, ADS 596 requires continuous management control assessments.

As part of its control system, USAID/West Bank and Gaza assessed its internal management controls in accordance with the instructions from USAID/Washington, and ADS 596. However, for undetermined reasons, the Mission did not identify certain additional weaknesses, not in the Management Control Checklist, that it was aware of. Also, certain other weaknesses were noted but not considered to present enough risk to require correction.

For example, just prior to the FY1999 FMFIA assessment, RIG/Cairo conducted a survey of certain issues dealing with construction contracts in the Gaza Strip. One of the issues, identified by the Mission, was that key employees paid for under a fixed price contract apparently were also charging their costs to cost reimbursable or other contracts. At the conclusion of our survey we briefed the Mission that certain employees under a fixed price contract were in fact charging a portion of their time to a Mission cost reimbursable contract. However, while we verified that a problem existed, the Mission did not report the weaknesses in its FY1999 FMFIA assessment. Hence the weakness was not included in the Mission's tracking system to assure that the matter was properly resolved. The GAO Standard states that one of the risk identification methods is the consideration of findings from audits and other assessments. By not comprehensively identifying and following-up on the reported management control issues, the Mission did not comply with GAO standards on internal control.

In another example, the Mission did not consider a FY1999 Management Control Checklist item related to audit management plans to be significant enough to require correction. ADS 591 requires an audit management plan and states that a copy of the plan should be provided to the cognizant RIG office. USAID/West Bank and Gaza is accountable for base funding levels of \$85 million and \$100 million for fiscal years 2000 and 2001, respectively. Further, in addition to these base assistance levels, the U.S. Government as a result of the September 1998 Wye River Memorandum, has pledged a further \$400 million in assistance to the Palestinians over a three-year period (FY 2000-2002). An audit is one of the tools that can help ensure that funds

³ OMB Circular A-123, Part III, Assessing and Improving Management Control.

are used properly, and audit plans help coordinate Washington and field efforts to assure that required audits are done. By not preparing and submitting the audit plan to the cognizant RIG office, the Mission is not in compliance with ADS 591.

An organized approach in identifying all management control issues that managers become aware of would allow management to promptly evaluate and determine proper actions in response to known deficiencies, and reported audit and other findings. Also, with an organized approach, management should be able to timely complete all actions to resolve deficiencies brought to its attention. To help the Mission identify and correct all weaknesses, we are making the following recommendation.

Recommendation No. 1: We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new management control weaknesses it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses.

Answer All Management Control Checklist Questions

M/MPI provided detailed instructions and guidance for conducting and reporting on the FY1999 and FY1998 assessments. According to those instructions, missions were to provide a certification statement, an update on the status of each material weakness identified in the prior year, and a description of any new, uncorrected material weaknesses identified in the current year. The GAO Standard states that "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination." The Controller's office maintained the completed management control review checklists for FYs 1999 and 1998. However, our audit noted that certain questions on the checklist were either partially answered or not answered at all, possibly because the Mission had not assigned responsibility to a specific office or the MCRC to assure the checklist was fully answered before certifying to the adequacy of the Mission's controls. Following are some examples of partially answered or unanswered questions:

- For FY1998, questions concerning procedures for handling sensitive but unclassified information were not fully answered.
- For FY1998, the Mission did not answer the entire section on Organization Management.
- For FY1998 and FY1999, the question concerning contractors maintaining accountable property records for Federal Information Processing resources was not answered in either checklist.
- For FY1999, the question related to annual evaluation forms reflecting management control responsibilities was answered "No", without any explanation for its one-word answer.

M/MPI staff said that it is clearly USAID's policy that management control responsibilities be reflected in the annual evaluation forms. They stated that the effective way to implement this

policy would be to either create a separate work objective or ensure that work elements and performance appraisals reflect the effectiveness of the Mission's staff in establishing, assessing, correcting and reporting on management controls. The Mission, by not implementing this policy, was in noncompliance with ADS 596.5.5. Further, we consider that an incomplete Management Control Checklist could result in a misleading FMFIA certificate provided to USAID/Washington. Leaving certain Management Control Checklist questions blank, or providing one-word answers, are indicators of the Mission's noncompliance with M/MPI instructions for conducting the FY1999 FMFIA assessment, ADS 596, and the GAO Standards for Internal Control in the Federal Government. To help the Mission ensure that it responds to all management control questions, we are making the following recommendation.

Recommendation No. 2: We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFIA review to specific Mission staff or offices and (b) determine the status of the Management Control Checklist and document its completion.

Has USAID/West Bank And Gaza reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza evaluated its system of internal accounting and administrative controls for FY1999 and identified four material weaknesses. The Mission reported those four weaknesses in its FY1999 FMFIA certification, dated October 22, 1999, in accordance with the FMFIA and related regulations and guidance. However, the Mission could have improved its reporting by disclosing certain concerns that were unresolved at the time of the submission of its FY1999 FMFIA certification.

Report Unresolved

Material Weaknesses

OMB Circular No. A-123 requires that a management control deficiency be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, ADS 596 and M/MPI's FY1999 FMFIA instructions required that missions provide a certification statement, an update on the status of each material weakness identified in the FY1998 review, and a description of any new uncorrected material weakness identified in FY1999, to the cognizant Assistant Administrator.⁴ The certification should identify management control deficiencies determined to be material weaknesses,⁵ including those that are not correctable

⁴ For USAID/West Bank and Gaza, the cognizant Assistant Administrator is the Assistant Administrator for the Asia and Near East Bureau (AA/ANE).

⁵ ADS 596 states that a material weakness generally would result in one of the following:

within the Mission's authority and resources. However, for some undetermined reason, the Mission did not report a concern that, in our opinion, should have been reported as a material weakness. Also, it reported another material weakness as closed before the problem was fixed.

Palestinian Authority Tax - The Mission did not report the Palestinian Authority's value-added tax (VAT) issue as a material weakness in its FY1997 through FY1999 FMFIA certifications. It is our opinion that this issue should have been reported as a material weakness.

Since 1995, the Palestinian Authority has taxed USAID programs when it is standard practice for USAID programs around the world to be exempt from taxes on official assistance. An estimate made by the Mission's program office indicated that during the period 1995-1999, the Palestinian Authority received approximately \$7.9 million in VAT payments from USAID financed programs. Other donors with programs similar to USAID have agreements with the Palestinian Authority for tax exemption on official assistance. For example, an agreement between the Federal Republic of Germany and the Palestinian Authority states that the Palestinian Authority shall levy no taxes or other public charges on payments made from funds of the Government of the Federal Republic of Germany.

A June 1998 letter from the Mission Director to the Palestinian Authority's Minister of Finance clearly indicates that this issue is material. The letter states that some members of U.S. Congress have expressed concerns about USAID funds being used for VAT payments. The letter further states that prompt resolution of the VAT payment problem will remove this issue from the agenda of those who make decisions about the level of funding for the West Bank and Gaza program. Based on our discussions with Mission personnel, the Mission continues its work on this issue even though its resolution is not within the scope of the Mission's authority. ADS 596 states that the certification shall include a description of deficiencies determined to be material weaknesses, including those that are not correctable within the assessable unit's authority and resources. Therefore, until this weakness is resolved, the Mission should report it as a material weakness in its annual FMFIA certification.

Staff Shortage - Another material weakness that we think should have been reported as outstanding is a staffing shortage in the Mission's contracting office. Although, the Mission provided an update in its FY1999 FMFIA assessment regarding the status of this staff shortage, it indicated the issue as being closed in 1999. However, based on our review of the Mission's Management Control Checklist response, we think that the staffing shortage issue was closed prematurely. In its checklist response, the Mission recognized the staffing shortage as a major concern, but closed it based on positions having been approved rather than the approved positions being filled. In our opinion, as long as a material weakness is still a major concern, the

-
1. Significantly impairs the organization's ability to achieve its objectives.
 2. Results in the use of resources in a way that is inconsistent with the Agency mission.
 3. Violates statutory or regulatory requirements.
 4. Results in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets.
 5. Impairs the ability to obtain, maintain, report or use reliable and timely information for decision making; or
 6. Permits improper ethical conduct or a conflict of interest.

Mission should continue to report it as a material weakness in its annual FMFIA certification. Hence, we are making the following recommendation.

Recommendation No. 3: We recommend that USAID/West Bank and Gaza, in its next FMFIA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as material weaknesses.

Has USAID/West Bank and Gaza taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/West Bank and Gaza took corrective actions on most deficiencies identified in its FY1998 and FY1999 FMFIA reviews. However, it needs to improve and formalize its follow-up system to ensure timely and effective action on all deficiencies.

Improve Corrective Actions Tracking

OMB Circular No. A-123 states that agencies should perform management control assessments to identify deficiencies in agency programs and operations and develop corrective action plans to track progress in resolving the identified deficiencies. In addition, the ADS⁶ states that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, although missions are not required to report non-material weaknesses to the next level of management, they are required to take timely and effective action to correct such deficiencies.

The Mission did not have a tracking system to monitor identified deficiencies that resulted from the FMFIA process for its FY1997 and FY1998 reviews but established a tracking system for FY1999. However, while the FY1999 review identified 37 deficiencies, the Mission only tracked the resolution of 19 deficiencies (17 identified during the FY1999 FMFIA process, and 2 identified outside the FMFIA process). Thus, it did not track all identified deficiencies, document the corrective action plans, monitor the corrective actions taken or to be taken, and document the review and approval of final corrective actions and closure of the deficiencies.

Without closely tracking its identified deficiencies and monitoring its planned corrective actions, the Mission places its operations at greater risk by allowing identified management control deficiencies to remain uncorrected for excessive periods of time. In addition, the Mission is in noncompliance with OMB Circular A-123 and USAID policy and procedures concerning timely action to correct management control deficiencies. We are making the following recommendation to help the Mission improve its system for tracking actions to correct

⁶ Chapter 596, Management Accountability and Control, Section 596.3, "Responsibility."

management control deficiencies.

Recommendation No. 4: We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action.

Management Comments and Our Evaluation

The Mission agreed with the report's findings and recommendations and has taken appropriate action to address the report's four recommendations (see Appendix II).

The Mission addressed Recommendation No. 1, that its Management Control Review Committee identify all deficiencies it becomes aware of and determine proper corrective actions, by revising its Mission Order No. 6, Subject: Management Control and Review Committee (MCRC). The revised Mission Order requires the MCRC to discuss and document the identification of all new management control weaknesses it becomes aware of and determine proper corrective actions in response to such new weaknesses.

The revised Mission Order No. 6 also addresses Recommendation No. 2, that the Mission designate responsibility for the FMFIA assessment to specific offices and document the completion of the Management Control Checklist. Under the revised Mission Order, the Mission Controller is designated as the responsible officer for conducting the annual FMFIA assessment, documenting its completion with a formal report to the MCRC, and planning follow-up actions for all weaknesses identified.

Regarding Recommendation No. 3, for the Mission to reconsider its decisions not to report as material weaknesses the Palestinian Authority tax issue and the Mission's contracting office staff shortage issue, the Mission stated that the MCRC and other senior managers had discussed these issues and they will be further discussed with Bureau representatives including the Deputy Assistant Administrator for ANE Bureau. The Mission believed its actions satisfy the intent of the recommendation, and we agree.

Lastly, regarding Recommendation No. 4, that the Mission revise its tracking system for deficiencies to ensure that the system tracks all deficiencies through final action, the Mission has initiated a new procedure for reporting and tracking deficiencies. Under the new procedure, the MCRC assures that for controls rated less than satisfactory the necessary corrective actions are determined, a planned resolution date is determined, and a responsible party is assigned to oversee follow-up.

We consider that the Mission's actions taken in response to the audit recommendations are appropriate and therefore consider that final action has been taken on the audit report's four recommendations. Hence, the recommendations are closed upon issuance of this final report.



SCOPE AND METHODOLOGY

We audited USAID/West Bank and Gaza's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from February 22 through March 8, 2000 at USAID/West Bank and Gaza.

We audited the Mission's FY1998 and FY1999 FMFIA assessments and the deficiencies noted under those assessments. The purpose of the audit was not to identify material weaknesses that were not reported by the Mission; however, if any such weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives, we used the FMFIA, Office of Management and Budget Circular No. A-123, the General Accounting Office's Standards for Internal Control in the Federal Government, USAID's Automated Directives System (ADS) Chapter 596, Management Accountability and Control, other ADS chapters relating to Agency policies and essential procedures, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID's Bureau for Management's Office of Management Planning and Innovation.

We interviewed the Mission's Management Control Official, members of the Mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the FY1998 and FY1999 FMFIA reviews, including the listings of management control deficiencies and management action plans for correcting those deficiencies.

We reviewed the Mission's FY1997, FY1998 and FY1999 FMFIA certifications to the AA/ANE on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of material weaknesses or deficiencies identified in the FY1998 review.

Management Comments


APPENDIX II

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT WEST BANK AND GAZA MISSION

September 27, 2000

MEMORANDUM

TO: Darryl T. Burris, RIG/Cairo

FROM: Larry Garber, Director, WB/G 

SUBJECT: Report No. 6-294-00-00X-P
Audit of USAID/West Bank and Gaza's Implementation of the Federal
Managers' Financial Integrity Act

The Mission thanks RIG/Cairo for the objective analysis of the procedures related to our implementation of the FMFLA and the suggestions made of how those procedures might be improved. The information below provides our response to that draft audit report and the recommendations included therein.

Recommendation No. 1: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to require the Management Control Review Committee to (a) discuss and document the identification of all new *management control weaknesses* it becomes aware of and (b) determine proper corrective actions in response to such new weaknesses."

Response: USAID/West Bank and Gaza has issued Mission Order No. 6, Revised (See Attachment A) which requires a discussion of "all *management control weaknesses* disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues." The revised Mission Order also requires the MCRC to assure "prompt resolution of *internal control problems*." We believe this satisfies recommendation no. 1 and ask that it be closed upon issuance of the report.

Recommendation No. 2: "We recommend that USAID/West Bank and Gaza revise its Mission Order No. 6 to (a) include a designation of responsibilities for conducting the FMFLA review to specific Mission staff or offices and (b) determine the status of the Checklist and document its completion."

Response: Mission Order No. 6, Revised (see attachment A) states that "The Mission Controller is responsible...for conducting the annual FMFLA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified." We believe this satisfies the recommendation and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 3: "We recommend that USAID/West Bank and Gaza, in its next FMFLA review, reconsider its decision to not report the Palestinian Authority tax issue and the Mission contracting office staff shortage issue as a material weakness."

Response: Both of these items were noted on the FY 2000 FMFIA management control assessment report summary (See attachment B). While the FMFIA report has not yet been finalized, (the due date to send it to the Bureau is October 20, 2000), the recommendation to reconsider the decisions concerning Palestinian VAT and staff shortages has occurred. The MCRC and other senior managers in the Mission have discussed these issues and they will be further discussed with Bureau representatives, including the Deputy Assistant Administrator for ANE, who will be visiting the Mission the week of October 2. We believe this satisfies the intent of recommendation no. 3 and ask that this recommendation be closed upon issuance of the report.

Recommendation No. 4: "We recommend that USAID/West Bank and Gaza review the procedures for its FMFIA review tracking system and strengthen or revise them to ensure that the system tracks all management control deficiencies through final corrective action."

Response: The Mission has initiated a new procedure for reporting and tracking deficiencies identified through the FMFIA process. All checklist items are rated as satisfactory (S), satisfactory, but could be improved (S/Imp) or unsatisfactory (U). The MCRC then sees that for those items rated U or S/Imp, a planned resolution date is determined, a responsible party is assigned to over see follow-up and the nature of necessary corrective actions is determined. Attachment B is an example of this reporting and follow-up mechanism. Note the columns marked RESOL(ution) DATE, RESP(onsible) PARTY and PLANNED ACTION. We believe that this tracking system combined with the responsibility for follow-up assigned to the Controller satisfies the recommendation. Accordingly, we ask that recommendation no. 4 be closed upon issuance of the report.

With the actions already taken and future implementation of the policies detailed in Mission Order No. 6, Revised, USAID/West Bank and Gaza believes that the recommendations stated in the draft report have been met and that all should be closed upon issuance of the final report.

USAID/West Bank and Gaza Mission Order No. 6. Revised

Subject: Management Control and Review Committee (MCRC)

Authority: ADS Sections 103.5.8b, 103.5.12a, 592.3.4 and other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance.

Effective Date: Upon the date of Director's signature.

Reference: Automated Directive Systems (ADS) Chapter 590 through Chapter 596

I. PURPOSE:

To establish the Management Control and Review Committee (MCRC) and to establish the Mission's procedures and responsibilities in implementing the Agency's Audit Management Resolution Program (AMRP) as defined in ADS Chapter 590 through 596 and provide guidance on its implementation.

II. THE MANAGEMENT CONTROL AND REVIEW COMMITTEE:

The Management Control and Review Committee shall manage and implement the Mission's AMRP. The MCRC will be chaired by the Deputy Mission Director and shall be comprised of Mission Senior Staff.

The MCRC shall meet at least every six months to review the status of AMRP implementation, discuss all management control weaknesses disclosed since the previous meeting and follow-up on previous decisions made concerning audit or management control issues. All MCRC meetings shall be documented and minutes maintained in the Director's Office. A copy of the minutes from each meeting shall be submitted to the Mission Director and made available to all Mission personnel. The Controller's Office will be responsible to keep track of all MCRC proceedings, drafting minutes and other documents as necessary.

The MCRC:

- Manages the annual internal management control assessment and assures prompt resolution of internal control problems;
- Provides oversight for the audit follow-up process by ensuring that audit follow-up responsibilities are correctly assigned and implemented;

- Serves as a decision-making body in situations involving audit follow-up impasses between the Regional Inspector General and the office to which action is assigned; and,
- Establishes Mission audit policies to mitigate mission specific risks.

III. RESPONSIBILITIES:

A. THE AUDIT MANAGEMENT OFFICER:

1. The Mission Controller is hereby designated the Mission's Audit Management Officer (AMO). The AMO shall report to the MCRC and perform all the functions required by the referenced ADS sections.
2. The Mission Controller is also responsible, under the direction of the MCRC, for conducting the annual FMFIA Internal Management Control Assessment, documenting its completion with a formal report to the MCRC and planning follow-up actions for all weaknesses identified.

B. MISSION AUDIT COMMITTEE:

The Mission Audit Committee (MAC) is a sub-committee of the MCRC. This Committee, chaired by the Controller, shall include as permanent members, the Deputy Director, the Legal Officer, the Director of the Program Office, the Executive Officer and the Director of the Contracting Office (or their designees).

The MAC shall ensure that all audit responsibilities are performed properly and that prompt and responsive action is taken on audit findings and audit recommendations. The MAC shall report regularly to the MCRC.

C. MISSION ACTIVITY MANAGERS:

Mission Activity Managers shall carry out all functions for Federal and Financial Audits as required by the ADS.

D. MANAGEMENT ACTION OFFICIAL (MAO):

A Management Action Official, identified by the MCRC based on each audit report, shall (a) Develop the mission response to draft and final audit recommendations related to area of responsibility; and, (b) Ensure that corrective action is completed for deficiencies identified in audits. The MCRC will identify the MAO for each audit in writing.

E. CONTRACTING OFFICER:

Performs all the functions required by the referenced ADS sections.

F. INTERNAL MANAGEMENT CONTROL ASSESSMENT:

The Controller, under the direction of the MCRC, will be responsible for coordinating the preparation of the Mission's annual FMFIA Internal Management Control Assessment and to ensure that all offices are actively involved in the evaluation of internal controls. The Controller will prepare a final assessment report to be given to the MCRC describing weaknesses identified throughout the process. The MCRC will then determine individuals responsible for follow-up action and a time frame to complete such action. The MCRC will advise the Mission Director of any weaknesses that should be highlighted in the annual Internal Control Certification and ways to act on the identified weaknesses.

G. RESPONSIBILITY FOR UPDATING THIS MISSION ORDER:

The Controller is responsible for ensuring that this Mission Order is up-to-date and consistent with the ADS or other Agency guidance. Whenever revisions or changes to this Mission Order may, in the opinion of the Controller, be necessary or desirable, the Controller shall prepare the proposed changes and revisions in draft for review by concerned Mission staff and in final for approval by the Mission Director.

IV. AUTHORITY:

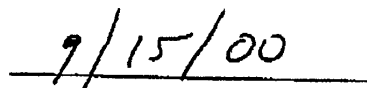
This Mission Order is issued by the Mission Director under ADS Sections 103.5.8b, 103.5.12a, 592.3.4, and the other authorities delegated or assigned to the Mission Director by the ADS or other Agency guidance. The Mission Director retains concurrent authority to exercise any of the authorities or responsibilities delegated or assigned in this Mission Order to Mission staff except to the extent that the exercise of those authorities or responsibilities may be otherwise limited.

V. EFFECTIVE DATE:

This revised Mission Order shall become effective upon the date of my signature.



Larry Garber, Mission Director



Date

Attachment B

WEST BANK/GAZA
 FY 1999 Federal Managers' Financial Integrity Act (FMFIA) Review
 Management Control Checklist

VII	OTHER	Rating	Risk	REMARKS	RESOL. DATE	RESP. PARTY	PLANNED ACTION
1	Corrective action has been accomplished for material weaknesses reported in the mission's FY 98 management control certification or revised corrective action plans and dates have been established.	U	High	The staff shortage notes in the FY 1999 FMFIA continues. While new USDH and USPSC positions have been approved, they have not been filled yet.			
2	A mission management control review committee is in place to address management accountability issues.	S	Med	Fully functioning since March 2000.			
3	Does the Mission have the necessary staff capability and expertise to properly manage the number of large construction contracts in the portfolio?	U	High	See #1 above.			
4	Has the Mission adequately addressed and documented the Palestinian VAT issue?	U	Med	This issue must be fully vetted with Mission senior staff, RLA and Bureau. It will be discussed with Bureau representatives during Program Week (Oct. 2 - 6).			
5	Annual Evaluation Forms reflect management control responsibilities, when applicable, and employees are evaluated on their effectiveness in carrying out these responsibilities.	U	Low	The Mission was criticized for this by RIG/Cairo in the FMFIA audit report. Mission should ensure that the ADS requirement is complied with.			