

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF INSPECTOR GENERAL

STATEMENT OF EVERETT L. MOSLEY, INSPECTOR GENERAL AND
TIMOTHY E. COX, REGIONAL INSPECTOR GENERAL, SAN SALVADOR
BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS

MARCH 21, 2001

MR. CHAIRMAN, OTHER COMMITTEE MEMBERS, AND COMMITTEE STAFF,
WITH ME TODAY IS MR. TIM COX, REGIONAL INSPECTOR GENERAL OF
OUR OFFICE IN SAN SALVADOR. WE ARE PLEASED TO OFFER OUR
TESTIMONY ON USAID PROGRAMS FUNDED UNDER THE CENTRAL
AMERICA AND THE CARIBBEAN EMERGENCY DISASTER RECOVERY FUND.
THESE PROGRAMS ARE COMMONLY REFERRED TO AS "HURRICANE
MITCH" PROGRAMS AND WE WILL SO REFER TO THEM IN OUR
TESTIMONY TODAY ALTHOUGH, AS YOU KNOW, SOME OF THE FUNDS
ARE BEING USED TO RESPOND TO THE EFFECTS OF HURRICANE
GEORGES IN THE CARIBBEAN AND THE EFFECTS OF AN EARTHQUAKE
IN COLOMBIA.

IN OUR TESTIMONY, WE WOULD LIKE TO DISCUSS THE OVERALL
PROGRESS OF THE HURRICANE MITCH PROGRAM, THE STRATEGY
DEVELOPED BY THE OFFICE OF INSPECTOR GENERAL (OIG) TO
PROVIDE OVERSIGHT FOR THE PROGRAM, THE RESULTS WE HAVE

REPORTED TO DATE, AND THEN SOME TENTATIVE CONCLUSIONS AND LESSONS LEARNED. AT THE CONCLUSION OF THIS TESTIMONY, WE WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

PROGRAM PROGRESS

EXCLUDING \$34 MILLION IN TRANSFERS TO OTHER FEDERAL AGENCIES UNDER THE AUTHORITY OF SECTION 632(A) OF THE FOREIGN ASSISTANCE ACT, AS OF DECEMBER 31, 2000, USAID REPORTED THAT \$586 MILLION OF THE REMAINING \$587 MILLION FROM THE HURRICANE MITCH SUPPLEMENTAL APPROPRIATION WAS OBLIGATED, \$534 MILLION WAS COMMITTED, AND \$240 MILLION WAS SPENT. THUS, CLOSE TO 100 PERCENT OF THE AMOUNT AVAILABLE TO USAID WAS OBLIGATED, 91 PERCENT WAS COMMITTED, AND 41 PERCENT WAS SPENT. EACH QUARTER WE TRACE THE EXPENDITURE INFORMATION BACK TO THE SUPPORTING REPORTS SUBMITTED BY USAID MISSIONS. BASED ON THIS WORK, THERE WERE NO MATERIAL ADJUSTMENTS TO THE EXPENDITURE DATA AS OF DECEMBER 31, 2000.

THE OIG HAS HELPED MONITOR THE PROGRAM'S PROGRESS PRIMARILY THROUGH ITS INTERNAL AUDIT PROGRAM. TO DATE, WE HAVE COMPLETED FIELDWORK ON FIVE AUDITS THAT EXAMINED WHETHER ACTIVITIES WERE ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS.

WE WILL BRIEFLY SUMMARIZE THE RESULTS OF THOSE AUDITS HERE AND WE WILL DISCUSS THEM IN MORE DETAIL IN A FEW MINUTES WHEN WE DISCUSS THE RESULTS WE HAVE REPORTED UNDER OUR OVERSIGHT PROGRAM.

OUR AUDIT REPORT ON THE \$50 MILLION ROAD AND BRIDGE RECONSTRUCTION PROGRAM IN HONDURAS CONCLUDED THAT THE PROGRAM WAS NOT ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS, DUE TO HIGHER THAN EXPECTED RECONSTRUCTION COSTS AND A SLOWER THAN EXPECTED START OF THE RECONSTRUCTION WORK. IN RESPONSE TO THE AUDIT, USAID/HONDURAS AND THE GOVERNMENT OF HONDURAS DEVELOPED A PLAN TO ACCELERATE PROGRESS UNDER THE PROGRAM.

IN HONDURAS, BASED ON OUR AUDIT OF THE WATER AND SANITATION ACTIVITIES WITH \$95 MILLION IN OBLIGATIONS, WE CONCLUDED THAT THE ACTIVITIES WERE NOT ON SCHEDULE. WE RECOMMENDED THAT USAID AND ITS GRANTEES DEVELOP WORK PLANS TO SHOW HOW PROGRESS COULD BE ACCELERATED TO COMPLETE ALL OF THE PLANNED ACTIVITIES BY DECEMBER 31, 2001. USAID/HONDURAS HAS IMPLEMENTED THIS RECOMMENDATION FOR ONE OF ITS GRANTEES AND IS DEVELOPING A PLAN OF ACTION FOR THE SECOND GRANTEE.

IN EXAMINING THE \$3 MILLION ROAD AND BRIDGE REPAIR ACTIVITY IN GUATEMALA, WE CONCLUDED THAT ONE GRANTEE, WITH \$2 MILLION IN USAID FUNDS, WAS ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS BUT A SECOND GRANTEE, WITH \$1 MILLION IN USAID FUNDS, WAS NOT. WE RECOMMENDED THAT USAID/GUATEMALA OBTAIN FROM THE SECOND GRANTEE A FIRM PLAN OF ACTION FOR COMPLETING THE PLANNED WORK.

IN THE DOMINICAN REPUBLIC, OUR AUDITORS CONCLUDED THAT THE \$8 MILLION HOUSING REHABILITATION PROGRAM WAS ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS.

FINALLY, IN NICARAGUA, WE FOUND THAT THE \$9.5 MILLION WATER AND SANITATION PROGRAM WAS ON SCHEDULE, EXCEPT FOR AN ACTIVITY TO CONSTRUCT SMALL DRAINS VALUED AT ABOUT \$116,000. WE PLAN TO RECOMMEND THAT USAID/NICARAGUA TAKE ACTION TO ACCELERATE CONSTRUCTION OF THESE DRAINS OR REPROGRAM THE FUNDS TO ANOTHER ACTIVITY.

AS YOU CAN SEE, THE AUDITS THAT WE HAVE COMPLETED TO DATE HAVE DISCLOSED A RANGE OF CONDITIONS, FROM ACTIVITIES THAT WERE ON SCHEDULE TO ACTIVITIES THAT WERE SIGNIFICANTLY DELAYED. WE HAVE FOCUSED ON THE LARGER ACTIVITIES IN EACH COUNTRY AND, AS YOU KNOW, SOME OF THE LARGEST

INFRASTRUCTURE ACTIVITIES HAVE RUN INTO SOME FAIRLY SIGNIFICANT IMPLEMENTATION PROBLEMS.

OIG OVERSIGHT STRATEGY

THE OVERALL PURPOSE OF THE OIG'S OVERSIGHT EFFORT HAS BEEN TO MAKE SURE THAT THE HURRICANE MITCH FUNDS ARE WELL SPENT. WE WANT TO PREVENT PROBLEMS FROM OCCURRING, WHERE THAT IS POSSIBLE, AND DETECT PROBLEMS EARLY ON, WHEN THEY INVOLVE RELATIVELY SMALL SUMS OF MONEY AND WHEN THEY CAN BE CORRECTED FAIRLY EASILY.

IN DEVELOPING OUR STRATEGY AND IN CARRYING IT OUT, WE HAVE WORKED CLOSELY WITH CUSTOMERS AND STAKEHOLDERS TO BE SURE THAT THE STRATEGY IS PRACTICAL AND THAT OUR WORK WILL MEET THE NEEDS OF OUR CUSTOMERS. THE STRATEGY IS INNOVATIVE IN THE SENSE THAT IT IS NOT STRICTLY AN AUDIT OR INVESTIGATIONS STRATEGY BUT INCLUDES MANY INNOVATIVE TYPES OF ACTIVITIES, AIMED AT PREVENTION AND DETERRENCE, THAT WE BROUGHT INTO OUR STRATEGY FROM OUTSIDE THE AUDIT AND INVESTIGATIONS TRADITIONS. THE STRATEGY EMPHASIZES PARTICIPATION IN THE SENSE THAT IT GIVES USAID'S GRANTEES AND CONTRACTORS A PROMINENT ROLE IN HELPING TO PREVENT AND DETECT FRAUDULENT ACTIVITIES.

THE OIG DEVELOPED ITS OVERSIGHT STRATEGY IN CONSULTATION WITH KEY CONGRESSIONAL STAFF MEMBERS, INCLUDING THE STAFF OF YOUR COMMITTEE. HERE, WE WOULD LIKE TO SAY THAT WE ARE VERY GRATEFUL FOR THE SUPPORT AND COUNSEL THAT YOUR COMMITTEE HAS PROVIDED TO OIG TO HELP US CARRY OUT OUR STATUTORY OVERSIGHT ROLE. AS YOU KNOW, THE SUPPLEMENTAL APPROPRIATION LEGISLATION INCLUDED \$1.5 MILLION IN ADDITIONAL OPERATING EXPENSE FUNDS FOR OIG TO SUPERVISE ADDITIONAL AUDITS AND INVESTIGATIONS OF HURRICANE MITCH ACTIVITIES. WE HAVE USED THESE ADDITIONAL FUNDS TO HIRE FIVE AUDIT STAFF UNDER PERSONAL SERVICES CONTRACTS AND PAY TRAVEL EXPENSES FOR THESE INDIVIDUALS, PLUS OUR U.S. DIRECT-HIRE AUDITORS AND INVESTIGATORS, TO PROVIDE CLOSE OVERSIGHT OF THE HURRICANE MITCH FUNDS.

THE OIG BEGAN CONSULTATIONS WITH USAID'S BUREAU FOR LATIN AMERICA AND THE CARIBBEAN (LAC BUREAU) AND USAID'S MISSIONS IN THE REGION IN NOVEMBER 1999, SHORTLY AFTER HURRICANE MITCH ENDED. THESE CONSULTATIONS CONTINUED AS THE MISSIONS DEVELOPED THEIR RECONSTRUCTION PROGRAMS AND AS THE ADMINISTRATION DEVELOPED ITS SUPPLEMENTAL APPROPRIATION REQUEST. WHEN WE PERFORMED OUR RISK ASSESSMENTS OF INDIVIDUAL ACTIVITIES FINANCED UNDER THE SUPPLEMENTAL

APPROPRIATION, WE DISCUSSED THE RESULTS WITH USAID MISSIONS BEFORE DECIDING WHAT TYPE OF OVERSIGHT WOULD BE APPROPRIATE FOR EACH ACTIVITY. THE DECISIONS THAT WE MADE BASED ON THE RISK ASSESSMENTS REFLECTED, IN ALMOST EVERY CASE, A CONSENSUS BETWEEN THE OIG AND USAID MISSION MANAGERS. WE HAVE CONTINUED TO WORK VERY CLOSELY WITH USAID STAFF TO MAKE SURE THAT USAID FUNDS ARE SPENT RESPONSIBLY BY GRANTEES AND CONTRACTORS.

THE OIG ALSO BEGAN MEETING WITH U.S. GENERAL ACCOUNTING OFFICE STAFF IN EARLY 2000, INITIALLY MEETING WITH GAO STAFF ON A MONTHLY BASIS AND MORE RECENTLY ON A QUARTERLY BASIS.

THE OIG COORDINATED ITS STRATEGY WITH OTHER DONORS (FOR EXAMPLE, THE WORLD BANK AND THE INTER-AMERICAN DEVELOPMENT BANK) PROVIDING HURRICANE MITCH ASSISTANCE IN CENTRAL AMERICA, BRIEFING THE DONORS ON THE STRATEGY IN JUNE 2000 AND SUBSEQUENTLY PROVIDING MORE DETAILED INFORMATION TO DONOR STAFF INVOLVED IN OVERSIGHT PLANNING.

THE OIG HAS ALSO COORDINATED ITS ACTIVITIES WITH THE INSPECTORS GENERAL OF THE OTHER FEDERAL AGENCIES WHO RECEIVED HURRICANE MITCH FUNDS UNDER THE AUTHORITIES OF

SECTIONS 632 (A) AND (B) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED TO HELP ENSURE THAT ALL OF THE ACTIVITIES FINANCED UNDER THE HURRICANE MITCH SUPPLEMENTAL APPROPRIATION RECEIVE ADEQUATE OVERSIGHT REGARDLESS OF WHICH FEDERAL AGENCY IS IMPLEMENTING THE ACTIVITIES.

DURING IMPLEMENTATION OF THE OVERSIGHT PROGRAM, WE HAVE CONTINUED TO KEEP OUR CUSTOMERS AND STAKEHOLDERS INFORMED THROUGH QUARTERLY BRIEFINGS FOR THE STAFF OF SIX CONGRESSIONAL COMMITTEES, INCLUDING YOUR COMMITTEE, AS WELL AS FOR THE LAC BUREAU AND OTHER INTERESTED USAID STAFF.

ADDITIONALLY, WE HAVE DEVOTED A SIGNIFICANT AMOUNT OF RESOURCES TO PROACTIVE ACTIVITIES DIRECTED TOWARD PREVENTION AND DETERRENCE. WE DECIDED EARLY ON THAT IT WOULD BE VITALLY IMPORTANT TO ENLIST THE HELP OF USAID'S CONTRACTORS AND GRANTEEES - WHO MANAGE USAID ACTIVITIES ON A DAY-TO-DAY BASIS - TO GUARD AGAINST FRAUDULENT ACTIVITIES AND HELP SERVE AS OUR EYES AND EARS. MOST FRAUD CASES ARE DISCOVERED THROUGH ALLEGATIONS, AND WE WANTED TO MAKE SURE THAT THE PEOPLE WORKING ON USAID PROGRAMS WERE TRAINED TO RECOGNIZE SITUATIONS THAT COULD BE INDICATIVE OF FRAUDULENT ACTIVITIES. AND AT THE SAME TIME WE WANTED TO MAKE THEM AWARE OF THE EXCEPTIONAL EFFORTS WE HAVE UNDERTAKEN TO

DETECT FRAUD AND ABUSE THROUGH OUR AUDIT AND INVESTIGATIONS PROGRAMS.

TOWARD THIS END, THE OIG DEVELOPED A FRAUD AWARENESS TRAINING PROGRAM WHERE TEAMS OF SPANISH-SPEAKING AUDITORS AND INVESTIGATORS VISITED USAID MISSIONS AND VISITED OUR CONTRACTORS AND GRANTEEES AT THEIR OFFICES TO PROVIDE BRIEFINGS ON THE CAUSES OF FRAUD AND CORRUPTION AND HOW THESE PROBLEMS CAN BE PREVENTED AND DETECTED. AS PART OF THE TRAINING, WE PROVIDED THE PARTICIPANTS WITH A MANUAL ON FRAUD INDICATORS THAT WAS DEVELOPED BY OIG AND TRANSLATED INTO SPANISH. IN ADDITION, WHERE WE BELIEVED THAT IT WOULD BE HELPFUL, WE PROVIDED THE GRANTEEES AND CONTRACTORS WITH MATERIALS TO HELP THEM DEVELOP POLICIES AND PROCEDURES THAT CAN HELP PREVENT FRAUD, SUCH AS CODES OF CONDUCT, CODES OF ETHICS, FINANCIAL DISCLOSURE POLICIES, FRAUD REPORTING POLICIES, AND SO ON. UNDER THE FRAUD AWARENESS TRAINING PROGRAM, WE HAVE TRAINED 2,141 PARTICIPANTS IN CENTRAL AMERICA AND THE CARIBBEAN.

THE RESPONSE TO THIS PROGRAM WAS IMMEDIATE AND OVERWHELMINGLY POSITIVE. IT WAS VERY CLEAR TO OUR TRAINERS THAT ANTI-CORRUPTION AND ANTI-FRAUD EFFORTS ARE NOT MERELY FASHIONABLE ISSUES WITHIN THE DONOR COMMUNITY BUT ARE

MEANINGFUL ISSUES FOR THE PEOPLE WHO WORK ON USAID PROGRAMS IN CENTRAL AMERICA AND THE CARIBBEAN. THERE WAS AN UNMET NEED FOR PRACTICAL, DETAILED INFORMATION ON HOW TO PREVENT FRAUD AND CORRUPTION, AND THIS PROGRAM HELPED MEET THIS NEED. ONE RESULT OF THIS PROGRAM HAS BEEN THAT OIG HOTLINE CALLS FROM THE REGION HAVE INCREASED 100 PERCENT. IT IS DIFFICULT TO QUANTIFY THE EFFECTIVENESS OF THIS PROGRAM IN PREVENTING FRAUD FROM OCCURRING BUT WE HAVE VERY STRONG REASONS FOR BELIEVING THAT THE PROGRAM HAS HAD THE DESIRED PREVENTIVE AND DETERRENT EFFECT. BECAUSE OF THE STRONG POSITIVE RESPONSE TO THIS PROGRAM, THE OIG IS IMPLEMENTING THE FRAUD AWARENESS TRAINING PROGRAM IN ITS OTHER REGIONS AS WELL.

TO DECIDE WHAT TYPE OF OVERSIGHT THE OIG SHOULD PROVIDE FOR INDIVIDUAL ACTIVITIES FINANCED UNDER THE SUPPLEMENTAL APPROPRIATION, WE EMPLOYED A RISK-BASED APPROACH. STAFF FROM OUR OFFICE IN SAN SALVADOR CONDUCTED RISK ASSESSMENTS OF EACH ACTIVITY THAT CONSIDERED FOUR FACTORS:

(1) THE EXPERIENCE, PERFORMANCE RECORD, AND AUDIT HISTORY OF THE CONTRACTORS AND GRANTEEES RESPONSIBLE FOR IMPLEMENTING EACH ACTIVITY,

(2) THE TYPE OF ACTIVITIES BEING FINANCED BY USAID (THIS IS IMPORTANT SINCE, FOR EXAMPLE, THE RISKS FOR A CONSTRUCTION ACTIVITY DIFFER FROM THE RISKS FOR A TECHNICAL ASSISTANCE ACTIVITY),

(3) THE CONTROLS AND IMPLEMENTATION ARRANGEMENTS FOR EACH ACTIVITY (INCLUDING ARRANGEMENTS FOR DISBURSING FUNDS, DELIVERING SERVICES, AND MONITORING PROGRESS), AND

(4) THE AMOUNT OF FUNDS DEVOTED TO EACH ACTIVITY.

BASED ON THESE ASSESSMENTS, THE OIG DECIDED TO PERFORM CONCURRENT AUDITS OF THE HIGHER RISK ACTIVITIES AND ANNUAL AUDITS OF THE LOWER RISK ACTIVITIES IMPLEMENTED BY CONTRACTORS AND GRANTEES. WE ARE NOT PERFORMING FINANCIAL AUDITS OF ACTIVITIES CARRIED OUT DIRECTLY BY USAID OR BY OTHER FEDERAL AGENCIES, ALTHOUGH THESE ACTIVITIES ARE SUBJECT TO PERFORMANCE AUDITS BY OUR OFFICE. CURRENTLY, THE OIG IS SUPERVISING 21 CONCURRENT AUDITS, 24 ANNUAL AGENCY-CONTRACTED AUDITS, AND 42 ANNUAL RECIPIENT-CONTRACTED AUDITS OF HURRICANE MITCH ACTIVITIES. THESE AUDITS ARE BEING CONDUCTED BY U.S. AUDIT FIRMS, BY FOREIGN AUDIT FIRMS AND SUPREME AUDIT INSTITUTIONS (SAIS) THAT THE

OIG HAS DEEMED ELIGIBLE TO PERFORM AUDITS OF USAID FUNDS,
AND BY THE DEFENSE CONTRACT AUDIT AGENCY (DCAA).

CONCURRENT AUDITS ARE FINANCIAL STATEMENT AUDITS THAT ARE PERFORMED WHILE THE ACTIVITY IS BEING IMPLEMENTED, WITH QUARTERLY REPORTING BY THE AUDITORS. EACH QUARTERLY REPORT INCLUDES THE AUDITORS' OPINION ON THE FUND ACCOUNTABILITY STATEMENT (THIS IS A FINANCIAL STATEMENT DESIGNED BY THE OIG THAT SHOWS THE BUDGETED AND ACTUAL INCOME AND EXPENSES OF THE USAID-FUNDED ACTIVITY AS WELL AS ANY QUESTIONED COSTS IDENTIFIED BY THE AUDITORS), A REPORT ON INTERNAL CONTROL, A REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS, A REPORT ON THE AUDITORS' REVIEW OF THE COST SHARING SCHEDULE (WHICH IS SIMILAR TO THE FUND ACCOUNTABILITY STATEMENT BUT INCLUDES ONLY THE AUDITEE'S CONTRIBUTIONS TO THE PROGRAM), AND A REPORT ON THE AUDITORS' FOLLOW-UP ON PREVIOUS AUDIT RECOMMENDATIONS. BECAUSE THESE CONCURRENT AUDITS COVER HIGHER RISK ACTIVITIES, WE HAVE PUT IN PLACE SOME EXCEPTIONAL QUALITY CONTROL MEASURES. FOR EXAMPLE, WHERE THESE AUDITS ARE CONDUCTED BY AUDIT FIRMS BASED OVERSEAS, WE REQUIRE THAT THE AUDIT REPORTS BE SIGNED IN THE NAME OF THE U.S. AUDIT FIRM THAT THEY REPRESENT. WE ALSO REQUIRE ON-SITE SUPERVISION OF THE AUDIT WORK BY STAFF OF THE U.S. FIRM.

FINALLY, OIG AUDITORS CLOSELY MONITOR THE AUDIT WORK BY APPROVING THE AUDIT STATEMENTS OF WORK, AUDIT PROGRAMS, AND DRAFT AND FINAL AUDIT REPORTS AND BY VISITING THE AUDITORS ON SITE AND REVIEWING THEIR WORKING PAPERS TO VERIFY THAT THEY ARE ADHERING TO *GOVERNMENT AUDITING STANDARDS* ISSUED BY THE U.S. GENERAL ACCOUNTING OFFICE.

THE ANNUAL AGENCY-CONTRACTED AUDITS SUPERVISED BY OIG ARE IDENTICAL IN SCOPE TO THE CONCURRENT AUDITS WE HAVE JUST DESCRIBED, AND OUR SUPERVISION OF THE AUDITS AND INVOLVEMENT IN QUALITY CONTROL IS ALSO THE SAME AS FOR THE CONCURRENT AUDITS. THE ONLY DIFFERENCE IS IN THE FREQUENCY OF REPORTING: FOR THE CONCURRENT AUDITS, WE REQUIRE QUARTERLY REPORTING AND FOR THE ANNUAL REPORTS THERE IS OF COURSE ONLY ONE AUDIT REPORT AT THE END OF THE YEAR.

FOR THE RECIPIENT-CONTRACTED AUDITS, THE SCOPE OF THE AUDITS IS THE SAME AS THE SCOPE OUTLINED ABOVE. FOR THESE AUDITS, WHICH COVER RELATIVELY SMALL, LOW RISK ACTIVITIES, OUR INVOLVEMENT IN QUALITY CONTROL COMES MAINLY AT THE END OF THE AUDIT, ONCE THE AUDIT WORK IS COMPLETE. WE PERFORM A DESK REVIEW ON EVERY RECIPIENT-CONTRACTED AUDIT, WHICH INVOLVES A REVIEW OF THE AUDIT REPORT TO VERIFY THAT THE AUDITORS FOLLOWED U.S. *GOVERNMENT AUDITING STANDARDS* AND

THE APPROVED STATEMENT OF WORK. THEN, FOR A SAMPLE OF AT LEAST 10 PERCENT OF THE FINAL REPORTS, WE PERFORM A QUALITY CONTROL REVIEW, WHICH IS A MORE IN-DEPTH REVIEW THAT INCLUDES AN EXAMINATION OF THE AUDITORS' WORKING PAPERS.

IN ADDITION TO OUR FINANCIAL AUDIT PROGRAM, WHICH IS FOCUSED ON AUDITING OUR CONTRACTORS AND GRANTEES TO MAKE SURE THAT USAID FUNDS ARE USED FOR AUTHORIZED PURPOSES, THE OIG ALSO HAS AN INTERNAL AUDIT PROGRAM, WHICH IS FOCUSED ON ASSESSING HOW WELL USAID IS CARRYING OUT ITS MANAGEMENT RESPONSIBILITIES FOR THE HURRICANE MITCH PROGRAM. THESE AUDITS ARE PERFORMED BY OIG STAFF. SOME OF THESE INTERNAL AUDITS EXAMINE MISSION FINANCIAL MANAGEMENT ISSUES AND ARE DESIGNED TO DETERMINE IF ADVANCES AND DISBURSEMENTS ARE PROPERLY PROCESSED AND REPORTED. OTHER INTERNAL AUDITS EXAMINE PROGRAM IMPLEMENTATION ISSUES AND ARE DESIGNED TO ADDRESS ISSUES SUCH AS:

(1) ARE RECONSTRUCTION ACTIVITIES ON SCHEDULE TO ACHIEVE THE INTENDED OUTPUTS?

(2) HAVE HOST GOVERNMENTS FOLLOWED USAID COMPETITION REQUIREMENTS IN AWARDING HOST COUNTRY CONTRACTS?

(3) HAVE USAID MISSIONS IMPLEMENTED ADEQUATE MONITORING SYSTEMS FOR THEIR RECONSTRUCTION PROGRAMS?

OUR AUDIT PROGRAM IS COMPLEMENTED BY A ROBUST INVESTIGATIONS PROGRAM WHERE WE MONITOR THE HURRICANE MITCH PROGRAM FOR INDICATIONS OF FRAUD OR ABUSE. ONE PRIORITY OF THIS PROACTIVE MONITORING EFFORT IS TO EXAMINE PROCUREMENT ACTIONS FOR SIGNS OF BID RIGGING OR OTHER IRREGULARITIES. AND, OF COURSE, OUR INVESTIGATORS RESPOND TO ALLEGATIONS AND LEADS DEVELOPED THROUGH THE AUDIT PROGRAM AND OTHER OIG INITIATIVES.

IN SUMMARY, THE OIG'S STRATEGY FOR HELPING PROVIDE OVERSIGHT FOR THE HURRICANE MITCH PROGRAM EMPHASIZES PREVENTION AND DETERRENCE, AS WELL AS AN INCLUSIVE APPROACH THAT RECOGNIZES THE IMPORTANT WAYS IN WHICH USAID MISSIONS AND USAID'S CONTRACTORS AND GRANTEEES CAN HELP PREVENT FRAUD FROM OCCURRING. VERY INTENSIVE, RISK-BASED AUDIT AND INVESTIGATIONS PROGRAMS SUPPORT THESE EFFORTS.

OIG OVERSIGHT RESULTS

AT THIS POINT, WE WOULD LIKE TO DISCUSS THE RESULTS WE HAVE REPORTED TO DATE UNDER OUR AUDIT PROGRAM. WE REGRET THAT

WE ARE NOT ABLE TO DISCUSS THE RESULTS OF THE INVESTIGATIONS PROGRAM IN THIS FORUM, OTHER THAN TO SAY THAT WE DO HAVE SEVERAL INVESTIGATIONS UNDERWAY. AS THESE INVESTIGATIONS ARE COMPLETED, WE WILL BRIEF YOUR STAFF ON THE RESULTS AND OF COURSE WE ARE ALWAYS AVAILABLE IF YOU OR ANY OF THE MEMBERS OF THE COMMITTEE WOULD LIKE TO BE BRIEFED ON INVESTIGATIONS RESULTS.

TO DATE, UNDER OUR FINANCIAL AUDIT PROGRAM, THE AUDITORS HAVE COMPLETED FIELDWORK ON 64 AUDITS COVERING \$72 MILLION IN USAID FUNDS. ON 49 OF THESE AUDITS (77 PERCENT), THE AUDITORS PRESENTED UNQUALIFIED OPINIONS: THAT IS, THEY CONCLUDED THAT THE FUND ACCOUNTABILITY STATEMENT FAIRLY PRESENTED THE INCOME AND EXPENDITURES OF THE USAID-FUNDED ACTIVITY. ON 13 AUDITS (20 PERCENT), THE AUDITORS EXPRESSED QUALIFIED OPINIONS: THAT IS THEY CONCLUDED THAT THE FUND ACCOUNTABILITY STATEMENT FAIRLY PRESENTED THE INCOME AND EXPENDITURES OF THE USAID-FUNDED ACTIVITY EXCEPT FOR THE POSSIBLE EFFECTS ON THE FUND ACCOUNTABILITY STATEMENT OF THE QUESTIONED COSTS IDENTIFIED BY THE AUDITORS. ON ONE AUDIT, THE AUDITORS ISSUED A NEGATIVE (ADVERSE) OPINION, CONCLUDING THAT THE FUND ACCOUNTABILITY STATEMENT DID NOT FAIRLY PRESENT THE INCOME AND EXPENDITURES OF THE USAID-FUNDED ACTIVITY, DUE TO

QUESTIONED COSTS THAT WERE VERY SIGNIFICANT IN RELATION TO THE AMOUNT AUDITED. FINALLY, ON ONE AUDIT, THE AUDITORS ISSUED A DISCLAIMER SINCE THE GRANTEE FAILED TO PREPARE A FUND ACCOUNTABILITY STATEMENT AND THEREFORE THE AUDITORS WERE UNABLE TO COMPLETE THEIR AUDIT.

THE AUDITS COMPLETED TO DATE HAVE IDENTIFIED \$2.4 MILLION IN QUESTIONED COSTS, REPRESENTING 3 PERCENT OF THE AMOUNTS AUDITED. THE QUESTIONED COSTS INCLUDED \$1.1 MILLION IN UNSUPPORTED COSTS AND \$1.3 MILLION IN INELIGIBLE COSTS.

THESE AUDITS ALSO IDENTIFIED 111 REPORTABLE INTERNAL CONTROL CONDITIONS AND 121 INSTANCES OF MATERIAL NONCOMPLIANCE WITH AGREEMENT TERMS OR APPLICABLE LAWS AND REGULATIONS. EXAMPLES OF INTERNAL CONTROL AND COMPLIANCE CONDITIONS REPORTED INCLUDE CASES WHERE:

- ENTITIES THAT RECEIVED FUNDS FROM USAID AWARDED SUB-GRANTS OR SUBCONTRACTS TO OTHER ORGANIZATIONS BUT DID NOT ADEQUATELY SUPERVISE THEIR ACTIVITIES,
- COMPETITIVE PROCUREMENT PROCEDURES WERE NOT FOLLOWED,

- WORK COMPLETED BY GRANTEEES OR CONTRACTORS DID NOT MEET SPECIFICATIONS,
- USAID FUNDS WERE SPENT FOR INELIGIBLE ITEMS,
- EXPENDITURES OF USAID FUNDS WERE NOT FULLY DOCUMENTED,
- ADVANCES WERE REPORTED AS EXPENSES,
- LOCAL TAXES WERE NOT WITHHELD FROM PAYROLLS, AND
- SUPPLIES AND MATERIALS PURCHASED WITH USAID FUNDS WERE NOT ADEQUATELY SAFEGUARDED.

WE BELIEVE THAT OUR CONCURRENT AUDIT PROGRAM HAS BEEN SUCCESSFUL IN IDENTIFYING PROBLEMS EARLY ON, WHEN RELATIVELY SMALL AMOUNTS ARE INVOLVED AND THE DEFICIENCIES ARE RELATIVELY EASY TO CORRECT. OUR EXPECTATION HAS BEEN THAT, AS TIME GOES ON, AND THESE PROBLEMS ARE ADDRESSED THROUGH OUR RECOMMENDATION FOLLOW-UP PROCESS, AND THE GRANTEEES AND CONTRACTORS GAIN EXPERIENCE WITH USAID REQUIREMENTS, WE SHOULD BEGIN TO SEE FEWER PROBLEMS. THIS IS IN FACT WHAT WE ARE SEEING, AND THERE ARE SOME GOOD

EXAMPLES WHERE OUR INITIAL CONCURRENT AUDITS IDENTIFIED SOME FAIRLY SIGNIFICANT PROBLEMS, INCLUDING FAIRLY HIGH PERCENTAGES OF QUESTIONED COSTS, BUT WE HAVE BEEN SUCCESSFUL IN CORRECTING THOSE PROBLEMS AND SUBSEQUENT AUDITS HAVE REPORTED MUCH LOWER PERCENTAGES OF QUESTIONED COSTS OR NONE AT ALL.

ONE SUCH EXAMPLE WOULD BE THE CASE OF A NON-GOVERNMENTAL ORGANIZATION (NGO) IN HONDURAS THAT IS IMPLEMENTING A CREDIT PROGRAM TO HELP REACTIVATE THE ECONOMY IN THE AFTERMATH OF HURRICANE MITCH. OUR INITIAL CONCURRENT AUDIT ON THIS NGO FOUND THAT THE NGO, USING USAID FUNDS, MADE SUB-GRANTS TO LOCAL ORGANIZATIONS THAT DID NOT HAVE ADEQUATE ACCOUNTING SYSTEMS AND, IN ONE CASE, HAD NOT ESTABLISHED A SEPARATE BANK ACCOUNT TO MANAGE FUNDS FROM THE USAID PROJECT AS REQUIRED BY THE SUB-GRANT AGREEMENT. AS A RESULT, THE AUDITORS IDENTIFIED \$338,894 IN UNSUPPORTED COSTS, OR 36 PERCENT OF THE AUDITED AMOUNT. DURING SUBSEQUENT CONCURRENT AUDITS OF THIS NGO, THE AUDITORS WORKED VERY CLOSELY WITH THE SUB-GRANTEES TO HELP THEM SET UP RELIABLE ACCOUNTING SYSTEMS THAT WOULD SHOW HOW USAID FUNDS WERE USED. AS A RESULT, SUBSEQUENT CONCURRENT AUDITS HAVE REPORTED RELATIVELY SMALL AMOUNTS OF QUESTIONED COSTS, RANGING BETWEEN 2 AND 4 PERCENT OF THE AUDITED

AMOUNTS. AND WE THINK THAT WE CAN CONTINUE TO BRING THESE AMOUNTS DOWN EVEN FURTHER THROUGH OUR CONCURRENT AUDIT PROGRAM.

A SECOND POINT THAT IS IMPORTANT TO UNDERSTAND IS THAT, TO DATE, WE HAVE BEEN MOSTLY REPORTING RESULTS FROM OUR CONCURRENT AUDIT PROGRAM, AND OF COURSE WE ARE CONDUCTING CONCURRENT AUDITS ON THE HIGHEST RISK PROGRAMS. AS TIME GOES ON, AND WE BEGIN TO REPORT AUDIT RESULTS ON THE LOWER RISK PROGRAMS THROUGH ANNUAL AUDITS, WE EXPECT THAT QUESTIONED COSTS, AS A PERCENTAGE OF AUDITED COSTS, WILL DECLINE. AGAIN, THIS IS IN FACT WHAT WE ARE SEEING, ALTHOUGH WE HAVE RECEIVED RELATIVELY FEW OF THE ANNUAL AUDIT REPORTS COVERING THE LOWER RISK PROGRAMS.

A THIRD POINT CONCERNS THE NATURE OF THE QUESTIONED COSTS WE HAVE IDENTIFIED TO DATE. WE HAVE NOT BEEN IDENTIFYING QUESTIONED COSTS WHERE USAID FUNDS WERE EMBEZZLED, OR USED FOR FRIVOLOUS PURPOSES, OR USED FOR PURPOSES TOTALLY UNRELATED TO THE RECONSTRUCTION EFFORT. RATHER, WE HAVE BEEN REPORTING QUESTIONED COSTS WHERE USAID GRANTEES AND CONTRACTORS HAVE PERFORMED WORK USING INCORRECT SPECIFICATIONS OR HAVE USED USAID FUNDS FOR PURPOSES THAT WERE NOT AUTHORIZED UNDER THE TERMS OF THEIR AGREEMENTS BUT

WERE RELATED TO THE RECONSTRUCTION EFFORT. WE DO NOT WANT TO MINIMIZE THESE QUESTIONED COSTS BECAUSE THEY REFLECT INELIGIBLE USES OF USAID FUNDS AND INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES THAT NEED TO BE CORRECTED. BUT THEY DO NOT REFLECT DELIBERATE DIVERSION OF USAID RESOURCES TO UNAUTHORIZED USES.

THE FOURTH AND LAST POINT WE WOULD LIKE TO MAKE IS THAT THERE ARE MANY CIRCUMSTANCES WHERE AUDITORS WILL QUESTION COSTS THAT WILL ULTIMATELY NOT BE SUSTAINED BY THE RESPONSIBLE GRANT OR CONTRACT OFFICER. FOR EXAMPLE, OUR AUDITORS RECENTLY QUESTIONED \$330,414 WHEN A GRANTEE REPORTED AS EXPENSES THE ADVANCES IT HAD MADE TO A TECHNICAL ASSISTANCE CONTRACTOR. THE AUDITORS WERE ABSOLUTELY RIGHT TO QUESTION THESE REPORTED EXPENSES BECAUSE THEY WERE NOT IN FACT EXPENSES. BUT IN ALL LIKELIHOOD, WITHIN SEVERAL MONTHS, THE CONTRACTOR WILL PERFORM SERVICES AND PROVIDE SUBSTANTIATED INVOICES TO LIQUIDATE MOST OR ALL OF THE ADVANCES, AND IF THIS IS WHAT IN FACT HAPPENS THEN THE AUDIT FINDING CAN BE LOOKED AT ALMOST AS A TIMING ISSUE. AND, OF COURSE, WHENEVER AUDITORS IDENTIFY UNSUPPORTED COSTS - CASES WHERE GRANTEES AND CONTRACTORS WERE NOT ABLE TO PROVIDE SUPPORTING DOCUMENTATION THAT OUR AUDITORS NEEDED TO REVIEW IN ORDER

TO ASSURE THEMSELVES THAT COSTS WERE REASONABLE, NECESSARY, AND ALLOCABLE TO USAID PROGRAMS - THE GRANTEEES AND CONTRACTORS ARE OFTEN ABLE TO SUBSEQUENTLY RECONSTRUCT THEIR RECORDS OR OTHERWISE DEMONSTRATE TO THE SATISFACTION OF THE GRANT OR CONTRACT OFFICER THAT THE COSTS ARE ALLOWABLE.

IN CONCLUSION, BASED ON THE INFORMATION WE HAVE OUTLINED ABOVE, THE FINANCIAL AUDIT PROGRAM HAS BEEN SUCCESSFUL IN LIMITING QUESTIONED COSTS AND OTHER TYPES OF DEFICIENCIES TO A RELATIVELY LOW LEVEL - CERTAINLY, IN OUR JUDGMENT, A MUCH LOWER LEVEL THAN WE WOULD HAVE SEEN HAD WE NOT UNDERTAKEN CONCURRENT AUDITS AND OTHER EXCEPTIONAL OVERSIGHT EFFORTS. MANY PEOPLE, WHEN THE ADMINISTRATION AND THE CONGRESS BEGAN TO DISCUSS THIS VERY LARGE RECONSTRUCTION PROGRAM FOR CENTRAL AMERICA, ANTICIPATED SOME VERY SERIOUS PROBLEMS WITH CORRUPTION AND LIMITED ABSORPTIVE CAPACITY. AND WE ARE VERY PLEASED THAT, WORKING WITH THE USAID MISSIONS AND GRANTEEES AND CONTRACTORS IN THE REGION, WE HAVE BEEN ABLE TO LIMIT THE PROBLEMS TO A RELATIVELY LOW LEVEL. THIS IS NOT THE TIME TO BE SATISFIED, AND WE NEED TO STAY VERY, VERY FOCUSED ON OUR OVERSIGHT AND CONTROL EFFORTS. AND WE ARE VERY CONSCIOUS THAT MORE SERIOUS PROBLEMS COULD DEVELOP OR BE DISCOVERED

THROUGH OUR OVERSIGHT PROGRAM AT ANY TIME. BUT SO FAR OUR OVERSIGHT PROGRAM IS DOING WHAT WE DESIGNED IT TO DO.

UNDER OUR INTERNAL AUDIT PROGRAM, THE AUDITORS HAVE COMPLETED FIELDWORK ON EIGHT AUDITS, AND WE WOULD LIKE TO PRESENT THE RESULTS OF THESE AUDITS IN VERY BRIEF FORM.

IN THREE COUNTRIES - HAITI, THE DOMINICAN REPUBLIC, AND HONDURAS - OUR AUDITORS EXAMINED USAID MISSION FINANCIAL OPERATIONS TO DETERMINE WHETHER THE MISSIONS WOULD BE ABLE TO MEET THE INCREASED PACE OF DISBURSEMENTS REQUIRED BY THEIR RECONSTRUCTION PROGRAMS WHILE STILL PROVIDING CLOSE SCRUTINY OF PAYMENT REQUESTS. THE INTENTION HERE WAS TO PREVENT PROBLEMS FROM OCCURRING BY MAKING SURE THAT MISSIONS HAD SOUND INTERNAL CONTROL SYSTEMS AND TRAINED STAFF ON BOARD. IN PERFORMING THIS AUDIT WORK, WHICH WAS MODELED AFTER THE WORK THAT WE DO IN MANY USAID MISSIONS AS PART OF OUR ANNUAL AUDIT OF USAID'S FINANCIAL STATEMENTS PURSUANT TO THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994, THE AUDITORS FOCUSED ON ADVANCES, PAYMENTS, AND RECONCILIATION OF MISSION PAYMENT RECORDS WITH U.S. TREASURY DEPARTMENT DISBURSING OFFICE RECORDS. IN ALL THREE MISSIONS, THE AUDITORS FOUND SOME DEFICIENCIES WITH RESPECT TO MANAGEMENT OF ADVANCES. IN ONE MISSION, THERE

WERE LARGE NUMBERS OF UNRECONCILED PAYMENT TRANSACTIONS, AND IN ANOTHER MISSION THE AUDITORS FOUND SEVERAL PAYMENTS THAT WERE NOT IN COMPLIANCE WITH THE UNDERLYING CONTRACT AND SHOULD NOT HAVE BEEN PROCESSED BY THE MISSION. THE AUDITORS RECOMMENDED THAT THE MISSIONS REVISE THEIR PROCEDURES AND PROVIDE ADDITIONAL TRAINING TO THEIR STAFF TO ADDRESS THESE DEFICIENCIES.

IN HONDURAS, OIG AUDITED THE MISSION'S \$50 MILLION ROAD AND BRIDGE RECONSTRUCTION ACTIVITY TO DETERMINE IF THE ACTIVITY WAS ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS AND WHETHER THE GOVERNMENT OF HONDURAS FOLLOWED COMPETITIVE PROCEDURES TO AWARD HOST COUNTRY CONTRACTS.

USAID/HONDURAS DESIGNED THIS ACTIVITY, CALLED THE EMERGENCY RECONSTRUCTION OF ROADS AND BRIDGES (RECAP) ACTIVITY, TO RECONSTRUCT 2,000 KILOMETERS OF UNSURFACED ROADS, 2,000 LINEAR METERS OF TWO-LANE CONCRETE BRIDGES AND FORDS, 30 KILOMETERS OF RECONSTRUCTED AND UPGRADED PAVED ROAD SECTIONS, AND 20 KILOMETERS OF REPAIRED OR COBBLE STONED TOWN STREETS AND RELATED WORKS.

THE AUDIT SHOWED THAT USAID/HONDURAS' ROAD RECONSTRUCTION ACTIVITIES WERE NOT ON SCHEDULE TO ACHIEVE THE PLANNED

OUTPUTS. HIGHER-THAN-EXPECTED RECONSTRUCTION COSTS (60 PERCENT HIGHER THAN ORIGINALLY PLANNED FOR RECONSTRUCTING UNSURFACED ROADS) AND IMPLEMENTATION DELAYS (RECONSTRUCTION WORK BEGAN IN MARCH 2000 RATHER THAN IN THE FALL OF 1999 AS ORIGINALLY PLANNED) LED THE OIG TO CONCLUDE THAT THE RECAP ACTIVITY'S PLANNED OUTPUTS COULD NOT BE ACHIEVED WITHIN THE PROJECT BUDGET OR BY THE PLANNED PROJECT COMPLETION DATE OF DECEMBER 31, 2001.

WITH RESPECT TO HOST COUNTRY CONTRACTS, THE OIG CONCLUDED THAT USAID-PRESCRIBED COMPETITIVE PROCEDURES WERE FOLLOWED WITH RESPECT TO ADVERTISING, PREPARATION OF SOLICITATION DOCUMENTS, COMPETITIVE SELECTION, AND AWARDING OF HOST COUNTRY CONTRACTS.

USAID/HONDURAS TOOK NUMEROUS ACTIONS BOTH BEFORE AND FOLLOWING THE OIG'S AUDIT TO SPEED IMPLEMENTATION OF THE RECAP ACTIVITY. IN RESPONSE TO THE AUDIT, USAID/HONDURAS, IN CONSULTATION WITH THE GOVERNMENT OF HONDURAS, REVISED THE PLANNED OUTPUTS, REDUCING UNSURFACED ROAD RECONSTRUCTION FROM 2,000 KILOMETERS TO 1,246 KILOMETERS WHILE INCREASING BRIDGE RECONSTRUCTION FROM 2,000 LINEAR METERS TO 4,494 LINEAR METERS. USAID/HONDURAS AND THE GOVERNMENT OF HONDURAS ALSO DEVELOPED AN ACCELERATED IMPLEMENTATION PLAN THAT INVOLVES:

- AWARDING ADDITIONAL CONTRACTS TO CONSTRUCTION FIRMS WITH AVAILABLE CAPACITY,
- USING INDEFINITE QUANTITY CONTRACTS TO SHORTEN THE TIME NEEDED TO AWARD CONTRACTS,
- PERMITTING THE RECAP EXECUTING UNIT FLEXIBILITY TO SHIFT ACTIVITIES BETWEEN GEOGRAPHIC AREAS AND CONTRACTORS BASED ON WEATHER CONDITIONS AND CONTRACTOR PERFORMANCE,
- ADJUSTING SELECTION CRITERIA TO ENSURE THAT ONLY ROADS AND BRIDGES THAT CAN BE COMPLETED BY DECEMBER 31, 2001 ARE SELECTED FOR RECONSTRUCTION, AND
- ALLOWING THE RECAP EXECUTING UNIT TO HIRE ADDITIONAL STAFF.

ALSO IN HONDURAS, OUR AUDITORS EXAMINED WATER AND SANITATION RECONSTRUCTION ACTIVITIES WITH OBLIGATIONS OF \$95 MILLION IN OBLIGATED FUNDS. THE AUDIT FOCUSED ON DETERMINING WHETHER USAID/HONDURAS' WATER AND SANITATION RECONSTRUCTION ACTIVITIES WERE ON SCHEDULE TO ACHIEVE THE

PLANNED OUTPUTS AND WHETHER GOVERNMENT OF HONDURAS AGENCIES FOLLOWED USAID COMPETITION REQUIREMENTS IN AWARDING HOST GOVERNMENT CONTRACTS.

THE AUDITORS CONCLUDED THAT USAID/HONDURAS' WATER AND SANITATION RECONSTRUCTION ACTIVITIES WERE NOT ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS. ONE OF THE GOVERNMENT OF HONDURAS AGENCIES WORKING WITH USAID - THE NATIONAL AUTONOMOUS WATER AND SANITATION SERVICE - WAS RESPONSIBLE FOR CONSTRUCTING LATRINES, RURAL WATER SYSTEMS, AND URBAN WATER SYSTEMS. WHILE CONSTRUCTION OF THE RURAL WATER SYSTEMS AND LATRINES WAS ON SCHEDULE, CONSTRUCTION OF THE URBAN WATER SYSTEMS WAS DELAYED. CONSTRUCTION OF THE URBAN WATER SYSTEMS, WHICH WERE RELATIVELY COMPLEX, EXPENSIVE SYSTEMS, WAS PLANNED TO BE 37 PERCENT COMPLETE BY SEPTEMBER 2000 BUT WAS ONLY 8 PERCENT COMPLETE, MAINLY DUE TO DELAYS IN RECEIVING USAID-PURCHASED CONSTRUCTION MATERIALS. THESE MATERIALS WERE ARRIVING AT CONSTRUCTION SITES WHEN THE AUDITORS COMPLETED THEIR WORK IN DECEMBER 2000.

THE OTHER GOVERNMENT OF HONDURAS AGENCY WORKING WITH USAID - THE HONDURAN SOCIAL INVESTMENT FUND (FHIS) - WAS RESPONSIBLE FOR CONSTRUCTING WATER AND SANITATION SYSTEMS AT RELOCATION SITES FOR DISPLACED PERSONS AS WELL AS IN

URBAN AREAS. AT USAID'S DIRECTION, FTHIS PACKAGED THESE SYSTEMS IN SEVEN PROCUREMENT "BUNDLES" TO MAKE THEM MORE ATTRACTIVE TO POTENTIAL U.S. BIDDERS. AT THE TIME OF THE OIG'S AUDIT, FTHIS HAD AWARDED ONE OF THE SEVEN PROCUREMENT BUNDLES. CONSTRUCTION OF THE SYSTEMS INCLUDED IN THIS PROCUREMENT BUNDLE WAS EXPECTED TO BE BETWEEN 22 PERCENT AND 30 PERCENT COMPLETE BY SEPTEMBER 2000 (DIFFERENT TARGETS WERE ESTABLISHED FOR EACH INDIVIDUAL SYSTEM). ACTUAL CONSTRUCTION PROGRESS AS OF SEPTEMBER 2000 RANGED FROM 8 PERCENT TO 13 PERCENT.

THE OIG RECOMMENDED THAT USAID/HONDURAS OBTAIN REVISED WORK PLANS SHOWING WHAT ADJUSTMENTS WOULD BE MADE TO CONSTRUCTION SCHEDULES IN ORDER TO MAKE UP FOR LOST TIME.

IN GUATEMALA, THE USAID MISSION HAS COMMITTED \$3 MILLION TO RECONSTRUCT OR REPAIR 14 BRIDGES AND REHABILITATE 230 KILOMETERS OF ROADS. BOTH OF USAID'S LOCAL GRANTEES IN THIS ACTIVITY ACHIEVED SIGNIFICANT RESULTS DURING THE FIRST EIGHT MONTHS OF WORK. HOWEVER, ONE OF THE LOCAL GRANTEES HAS EXPERIENCED HIGHER THAN EXPECTED COSTS: FOR THE ROAD REHABILITATION CONTRACTS SIGNED AT THE TIME OF OUR AUDIT, THE COST PER KILOMETER WAS ABOUT TWICE WHAT WAS PLANNED.

MOREOVER, THE PARTNER DOES NOT HAVE A DETAILED PLAN FOR COMPLETING THE REMAINING ROADS WITHIN THE AVAILABLE BUDGET. USAID/GUATEMALA MONITORED THE ROAD AND BRIDGE REPAIR ACTIVITIES BY PERFORMING SITE VISITS TO CONSTRUCTION AREAS, MEETING WITH ITS GRANTEES TO DISCUSS PROJECT IMPLEMENTATION, AND APPROVING PROJECT WORK PLANS. HOWEVER, WE CONCLUDED THAT USAID/GUATEMALA COULD STRENGTHEN ITS MONITORING OF THE ACTIVITY BY PERFORMING DETAILED COST ANALYSES OF PROPOSED RECONSTRUCTION COSTS TO SEE IF THEY ARE REALISTIC AND MAKING SURE THAT IT IS APPRISED BY ITS GRANTEES WHEN THEY MAKE SIGNIFICANT CHANGES TO APPROVED WORK PLANS. THE AUDIT REPORT RECOMMENDED THAT USAID/GUATEMALA OBTAIN A FIRM PLAN OF ACTION FROM ITS PARTNER FOR COMPLETING THE REMAINING ROAD WORK AND DEVELOP AN IMPROVED MONITORING PLAN.

IN THE DOMINICAN REPUBLIC, THE OIG AUDITED USAID/DOMINICAN REPUBLIC'S HOUSING RECONSTRUCTION ACTIVITIES TO SEE WHETHER THE ACTIVITIES WERE ON SCHEDULE AND WHETHER THE MISSION HAD IMPLEMENTED AN ADEQUATE MONITORING SYSTEM FOR ITS HOUSING RECONSTRUCTION ACTIVITIES. FOR THE NEW HOUSING ACTIVITY, USAID/DOMINICAN REPUBLIC WAS ON TRACK TO COMPLETE ALL 2,250 PLANNED NEW HOUSES ON TIME. FOR THE HOUSING REPAIR ACTIVITY, THE MISSION DECIDED TO REPAIR ONLY 1,541 HOUSES, COMPARED TO 2,750 HOUSES IN THE APPROVED WORK PLAN, IN ORDER TO FOCUS

RESOURCES ON INCLUDING FULL WATER AND SANITATION FACILITIES IN THE NEWLY CONSTRUCTED HOMES. THE OIG RECOMMENDED THAT THE MISSION OBTAIN A REVISED WORK PLAN FROM ITS GRANTEE AND REVISE THE COOPERATIVE AGREEMENT TO REFLECT THE REVISED PLANS. THE MISSION AGREED WITH THIS RECOMMENDATION AND A MANAGEMENT DECISION HAS BEEN REACHED ON THE RECOMMENDATION. THE MISSION HAD IMPLEMENTED AN ADEQUATE MONITORING SYSTEM. MISSION STAFF WORKED CLOSELY WITH THE GRANTEE TO DEVELOP HOUSING PROJECTS THAT WERE CONSISTENT WITH THE MISSION'S HOUSING RECONSTRUCTION STRATEGY. MISSION STAFF ALSO MADE FREQUENT SITE VISITS TO ENSURE PROPER IMPLEMENTATION OF THE PROJECT AND MONITOR PROGRESS. ALSO, IN COLLABORATION WITH THE OIG, THE MISSION HAD CONTRACTED FOR A CONCURRENT FINANCIAL AUDIT OF THE PROJECT.

FINALLY, IN NICARAGUA, THE OIG AUDITED THE \$9.5 MILLION WATER AND SANITATION ACTIVITY TO DETERMINE WHETHER THE ACTIVITY IS ON SCHEDULE TO ACHIEVE THE PLANNED OUTPUTS AND WHETHER USAID/NICARAGUA IMPLEMENTED AN ADEQUATE MONITORING SYSTEM FOR THE ACTIVITY. THE AUDITORS CONCLUDED THAT THE ACTIVITY IS ON SCHEDULE EXCEPT FOR SEEPAGE PITS (SMALL IN-GROUND DRAINS FOR DISPOSING OF WASTEWATER FROM BATHING, DISHWASHING, AND SIMILAR ACTIVITIES) VALUED AT ABOUT \$116,000. THE AUDITORS ALSO FOUND THAT USAID/NICARAGUA

IMPLEMENTED AN ADEQUATE MONITORING SYSTEM THAT INCLUDED FREQUENT FIELD VISITS THAT WERE APPROPRIATELY DOCUMENTED AND A PERFORMANCE MONITORING PLAN THAT IDENTIFIED APPROPRIATE SOURCES OF INFORMATION FOR MONITORING THE PROGRESS AND RESULTS OF THE ACTIVITY. HOWEVER, THE AUDITORS FOUND SEVERAL CASES WHERE SIGNS PUBLICIZING USAID'S SUPPORT FOR RECONSTRUCTION ACTIVITIES WERE NOT ERECTED AND WHERE THE BENEFICIARIES WERE NOT AWARE THAT THE U.S. GOVERNMENT (ACTING THROUGH USAID) WAS THE SOURCE OF FUNDING FOR THE ACTIVITY. ACCORDINGLY, THE AUDITORS PLAN TO RECOMMEND THAT USAID/NICARAGUA TAKE ACTION TO (1) ACCELERATE CONSTRUCTION OF THE SEEPAGE PITS OR REPROGRAM THE FUNDS TO ANOTHER ACTIVITY AND (2) VERIFY THAT GRANTEES HAVE ERECTED SIGNS ACKNOWLEDGING USAID SUPPORT FOR WASTEWATER AND SANITATION ACTIVITIES.

CONCLUSIONS AND LESSONS LEARNED

WE WOULD LIKE TO DRAW A FEW CONCLUSIONS AND LESSONS LEARNED, BUT OF COURSE, KEEPING IN MIND THAT THE HURRICANE MITCH RECONSTRUCTION PROGRAM IS STILL BEING IMPLEMENTED, AND THAT OUR OVERSIGHT OF THE PROGRAM IS STILL UNDERWAY, THESE CONCLUSIONS AND LESSONS LEARNED HAVE TO BE CONSIDERED TENTATIVE IN NATURE.

BASED ON THE OIG'S AUDIT WORK TO DATE, WE THINK IT IS FAIR TO CONCLUDE THAT THERE HAVE BEEN SOME SIGNIFICANT DELAYS IN IMPLEMENTING THE PROGRAM. AT THE SAME TIME, WE THINK IT IS IMPORTANT TO RECOGNIZE THAT A TREMENDOUS AMOUNT OF WORK HAS BEEN ACCOMPLISHED AND WE ARE PLEASED THAT WE HAVE NOT SEEN MAJOR PROBLEMS WITH CORRUPTION OR LARGE-SCALE DIVERSION OF USAID FUNDS.

USAID HAS DEVELOPED SOME LESSONS LEARNED, WITH PARTICIPATION FROM THE OIG. SOME OF THESE LESSONS LEARNED ARE:

- IN FUTURE DISASTER SITUATIONS, STAFFING DECISIONS AND TRANSFERS NEED TO BE MADE ON AN EMERGENCY BASIS. THIS REQUIRES COORDINATION BETWEEN ALL OF THE USAID OFFICES THAT HELP MAKE STAFFING DECISIONS AND ALSO REQUIRES SUPPORT FROM TOP MANAGEMENT. IN SOME CASES, TEAMS OF TECHNICAL EXPERTS, PROJECT DEVELOPMENT OFFICERS, CONTRACTING OFFICERS, ETC., CAN HELP GET PROGRAMS UNDERWAY AND ASSIST IN INITIAL IMPLEMENTATION.
- THERE IS ALSO A NEED TO ASSIGN SUFFICIENT STAFF TO WORK WITH OTHER DONORS AND NON-PROFIT AND FOR-PROFIT ENTITIES

IN THE UNITED STATES TO HELP MOBILIZE AVAILABLE RESOURCES WITHOUT OVERWHELMING LOCAL ABSORPTIVE CAPACITY.

- USAID RECOGNIZES THE VALUABLE CONTRIBUTIONS MADE BY OTHER U.S. GOVERNMENT AGENCIES TO THE RECONSTRUCTION EFFORT. AT THE SAME TIME, THERE IS A NEED TO EVALUATE THEIR ABILITY TO DESIGN AND IMPLEMENT PROGRAMS OVERSEAS. IN SOME CASES, IT MIGHT BE DESIRABLE TO FIND WAYS THAT OTHER U.S. GOVERNMENT AGENCIES CAN PARTICIPATE IN RECONSTRUCTION EFFORTS WITHOUT DESIGNING THEIR OWN DISCRETE PROGRAMS.
- CLOSE COORDINATION BETWEEN USAID AND THE CONGRESS, BOTH BEFORE AND AFTER FUNDING IS APPROVED, CAN SPEED PROGRAM IMPLEMENTATION.
- SPECIAL ACCOUNTABILITY AND OVERSIGHT MECHANISMS, SUCH AS CONCURRENT AUDITS, CAN HELP ENSURE THE SUCCESS AND CREDIBILITY OF USAID RECONSTRUCTION PROGRAMS.

WE WOULD LIKE TO EXPAND SOMEWHAT ON THE LESSONS LEARNED FROM OVERSIGHT EFFORTS SINCE THIS IS AN AREA WHERE THE OIG PLAYED A KEY ROLE. PERHAPS THE MOST IMPORTANT LESSON FROM OUR OVERSIGHT PROGRAM IS THAT PARTICIPATION AND TEAMWORK

ARE VERY IMPORTANT. IN THIS REGION, WE HAVE A RELATIVELY SMALL OFFICE, WHICH, WITH YOUR COMMITTEE'S HELP, WE WERE ABLE TO EXPAND SIGNIFICANTLY FOR THE DURATION OF THE HURRICANE MITCH PROGRAM. BUT EVEN WITH THIS SIGNIFICANT EXPANSION - FROM 7 TO 15 AUDITORS DURING A TWO-YEAR PERIOD - IT WOULD HAVE BEEN FOOLISH FOR US TO SUPPOSE THAT WE COULD MAINTAIN CONTROL OVER A PROGRAM OF THIS SIZE BY OURSELVES. COORDINATION WITH THE GENERAL ACCOUNTING OFFICE HAS BEEN VERY IMPORTANT AND WE THINK THAT IT HAS HELPED US FOCUS OUR OVERSIGHT PROGRAM AND AVOID DUPLICATION OF EFFORT.

USAID MISSION STAFF, AND THE STAFF OF USAID'S CONTRACTORS AND GRANTEES HAVE PLAYED AN ABSOLUTELY CRITICAL ROLE IN OUR OVERSIGHT PROGRAM. AS WE INDICATED EARLIER, THE FRAUD AWARENESS TRAINING WE DID HAS RECEIVED A VERY ENTHUSIASTIC RESPONSE AND WE THINK IT HAD A TREMENDOUS DETERRENT EFFECT. I THINK THAT PARTICIPATION AND TEAMWORK HAVE ALSO BEEN IMPORTANT IN OUR WORK WITH AUDIT FIRMS, SAIs, AND DCAA TO CARRY OUT FINANCIAL AUDITS OF THE HURRICANE MITCH PROGRAM. PRIOR TO THE HURRICANE MITCH PROGRAM, DCAA HAD NOT PLAYED A LARGE ROLE IN AUDITING USAID PROGRAMS IN OUR REGION, ALTHOUGH DCAA HAS FOR MANY YEARS PERFORMED AUDITS OF USAID CONTRACTORS BASED IN THE UNITED STATES. UNDER THE

HURRICANE MITCH PROGRAM, WE HAVE ASKED DCAA TO PERFORM 16 AUDITS FOR US ON A COST-REIMBURSABLE BASIS. THEY HAVE DONE VERY HIGH QUALITY WORK FOR US AND HAVE PROVIDED EXCELLENT CUSTOMER SERVICE, SO IT IS LIKELY THAT WE WILL WANT THEM TO CONTINUE TO WORK WITH US IN THIS REGION AFTER THE HURRICANE MITCH PROGRAM ENDS.

THE PARTICIPATION OF OVERSEAS AUDIT FIRMS AND SAIS IN OUR FINANCIAL AUDIT PROGRAM HAS ALSO BEEN ABSOLUTELY CRITICAL. HERE, IT WOULD BE FAIR TO SAY THAT WE HAVE SEEN A WIDER RANGE OF CAPABILITIES AND EXPERIENCE. WHILE SOME OF THE AUDIT FIRMS AND SAIS WE WORK WITH DEMONSTRATE A HIGH DEGREE OF SKILL AND PROFESSIONALISM, OTHERS NEED MUCH MORE ASSISTANCE FROM OUR OFFICE TO PERFORM SATISFACTORILY. AND IT IS PROBABLY TRUE THAT IN SOME CASES IT MIGHT HAVE BEEN MORE EFFICIENT TO WORK WITH A MORE SELECT GROUP OF AUDITORS. BUT OF COURSE EFFICIENCY IS NOT THE ONLY IMPORTANT MEASURE OF SUCCESS. OUR WORK WITH AUDIT FIRMS AND SAIS IS PART OF A LONG-TERM COMMITMENT BY THE OIG TO HELP STRENGTHEN THE AUDIT PROFESSION IN THE REGION. BY PARTICIPATING IN AUDITS OF USAID FUNDS, AUDITORS GAIN EXPERIENCE IN PERFORMING AUDITS IN ACCORDANCE WITH INTERNATIONALLY RECOGNIZED AUDITING STANDARDS AND GAIN ACCESS TO TRAINING AND TECHNICAL ASSISTANCE FROM OUR STAFF.

WE THINK WE ARE GOING TO HAVE SOME REAL SUCCESS STORIES TO TELL IN TERMS OF AUDIT ORGANIZATIONS THAT HAVE BEEN SIGNIFICANTLY STRENGTHENED THROUGH THIS AUDIT PROGRAM. AND, PERHAPS ALMOST AS IMPORTANTLY, WHERE WE HAVE WORKED WITH LOCAL AUDIT FIRMS AND SAIS WE HAVE BEEN ABLE TO AVOID THE APPEARANCE THAT THIS EXTRAORDINARY ANTI-CORRUPTION EFFORT IS SOMETHING IMPOSED BY THE U.S. GOVERNMENT. WE THINK THAT THE PARTICIPATION OF LOCAL AUDIT FIRMS AND SAIS IN OUR AUDIT PROGRAM UNDERLINES THE REALITY THAT THIS OVERSIGHT PROGRAM IS IN FACT A JOINT EFFORT BETWEEN THE U.S. GOVERNMENT AND A VERY WIDE VARIETY OF ORGANIZATIONS, BOTH IN THE PUBLIC SECTOR AND IN THE PRIVATE SECTOR IN THE REGION.

WE'VE ALSO LEARNED A LOT ABOUT CONCURRENT AUDITS AND HOW THEY CAN BE USEFUL TO US IN IDENTIFYING PROBLEMS EARLY ON, WHILE THEY ARE STILL SMALL PROBLEMS, AND BEFORE THEY CAN GROW. WE ALSO BELIEVE THAT, BY PROVIDING US WITH A HIGHLY VISIBLE PRESENCE WITHIN MANY OF THE ORGANIZATIONS IMPLEMENTING USAID PROGRAMS, THESE CONCURRENT AUDITS HAVE HAD AN IMPORTANT DETERRENT EFFECT ON INDIVIDUALS WHO MIGHT HAVE BEEN CONTEMPLATING ENGAGING IN SOME TYPE OF FRAUDULENT ACTIVITY.

THE OIG HAS DONE CONCURRENT AUDITS MANY DIFFERENT WAYS AT DIFFERENT TIMES, IN DIFFERENT REGIONS OF THE WORLD. THIS REFLECTS THE FACT THAT THE NEEDS AND PRIORITIES AND RESOURCES AVAILABLE ARE ALWAYS A LITTLE DIFFERENT. WE THINK THAT THE WAY THAT WE'VE DONE CONCURRENT AUDITS FOR THE HURRICANE MITCH PROGRAM HAS PROVEN TO BE A VERY COST EFFECTIVE WAY TO PROVIDE CONTROL OVER A LARGE EMERGENCY DISASTER RECOVERY PROGRAM LIKE THIS ONE. THAT OPINION IS FAIRLY WIDELY HELD. IN FACT, WE ARE NOW WORKING CLOSELY WITH THE LAC BUREAU AND USAID/EL SALVADOR ON PLANS TO PERFORM SIMILAR CONCURRENT AUDITS, WHERE WARRANTED BY THE RISKS, UNDER THE EARTHQUAKE RECONSTRUCTION PROGRAM IN EL SALVADOR.

MR. CHAIRMAN, THAT CONCLUDES OUR STATEMENT. WE WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR OTHER COMMITTEE MEMBERS HAVE.