Office of Inspector General

September 23, 2011

MEMORANDUM

TO: USAID/Haiti Mission Director, Carleene Dei

FROM: Acting Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: Review of the Pan American Development Foundation's Management Controls (Report Number 1-521-11-002-S)

This memorandum transmits our final report on the subject review. In finalizing the report, we carefully considered your comments on the draft and have included the comments in their entirety in appendix II.

The report includes 14 recommendations. On the basis of actions and timelines proposed by the mission, we determined that management decisions have been reached on all recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

I appreciate the cooperation and courtesy extended to my staff during the review.

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SUMMARY

The Pan American Development Foundation (PADF) is a private, nonprofit, nongovernmental organization that works exclusively in Latin America and the Caribbean, with field offices mainly in Haiti. In recent years, PADF has received USAID grants for numerous programs in Haiti, including programs to reduce trafficking in persons, protect human rights, and provide emergency shelter rehabilitation.

The objective of the review, initiated at the request of USAID/Haiti, was to determine whether PADF/Haiti's financial management controls provide reasonable assurance that PADF/Haiti is reporting reliable financial information for its USAID-funded awards. This review covered management controls over multiple programs that PADF was implementing during fiscal years (FYs) 2007 through 2010, and included the following programs:

- The Solid Waste Removal Program. For this $7.2 million cooperative agreement, started in May 2005 and ended in June 2007, PADF disbursed $7.2 million.

- The Trafficking in Persons Program. For this $2.5 million cooperative agreement, started in May 2005 and ended in March 2007, PADF disbursed $1.6 million.

- The Protection of Human Rights Program. For this $7.3 million cooperative agreement, started in May 2007 and ended in January 2011, PADF disbursed $7.3 million.

- The Emergency Shelter Rehabilitation Program. This $11.8 million grant agreement started in April 2010 and was expected to end in September 2011. As of the audit, PADF had disbursed $8.3 million for the program.

The review identified 11 weaknesses in management controls, of which 3 are considered material weaknesses, that PADF needs to address to comply with the Code of Federal Regulations (CFR) and generally accepted accounting principles. Given the nature of the material and significant weaknesses identified, USAID/Haiti should require PADF to make significant financial management improvements to ensure that PADF remains eligible to receive advance payments.

Material Weaknesses. A material weakness is a significant deficiency in internal control or a combination thereof that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The review identified the following material weaknesses in PADF's internal controls:

- 22 CFR 226.53(b) requires the recipients of USAID awards to retain for 3 years all records pertinent to an award. PADF/Haiti did not have supporting documentation for expenditures totaling $25,332 for the Trafficking in Persons Program and $866,706 for the Solid Waste Removal Program for FY 2007. This weakness has a material impact on the financial statements (page 6).

- According to 22 CFR 226.21(b)(7), recipients' financial management systems shall provide accounting records that are supported by source documentation. For the Solid Waste Removal Program, financial data for FY 2007 became corrupted, and the data backups

were not functional and could not be installed. This weakness has a material impact on the financial statements (page 7).

- On a monthly basis, PADF/Washington reconciled the total costs recorded in its general ledger with those in the PADF/Haiti general ledger. However, reconciliations were not done at the account level. Furthermore, for the Emergency Shelter Rehabilitation Program, PADF/Washington did not reconcile the financial data from April through June 2010. This weakness has a material impact on the financial statements (page 7).

Significant Deficiencies. A significant deficiency is a deficiency in internal control or a combination thereof that is less severe than a material weakness but is important enough to merit attention by those charged with governance. The review identified the following significant weaknesses in PADF's internal controls:

- PADF/Haiti did not always make timely payments to vendors and employees. For example, PADF/Haiti did not make timely payments to two vendors under the Protection of Human Rights Program, and four employees waited up to 3 months to receive their final payment from PADF/Haiti (page 8).

- For the Protection of Human Rights Program, the subawardee selection process required proposals detailing the needed services or activities, eligible activities, criteria for selection, and application guidelines. Four of the nine subawards selected lacked supporting documentation showing that PADF/Haiti had conducted preaward surveys. Where preaward surveys were utilized, the surveys were not complete (page 9).

- PADF/Haiti relies on physical counts of assets to safeguard assets. However, PADF/Haiti did not complete a physical count of assets for the Protection of Human Rights Program during FY 2008. In addition, PADF/Haiti did not maintain the original documentation supporting the physical counts for FY 2009 (page 9).

- PADF/Haiti's policies and procedures were incomplete. They did not address the use of contracts, budget review and approval, segregation of duties, or requirements related to advances of funds. As a result, PADF/Haiti's policies and procedures did not provide reasonable assurance that operational and financial information was relevant and reliable in accordance with regulations (page 10).

- As a best practice, organizations should require that vendors be paid directly in order to safeguard assets. However, the review found instances when PADF/Haiti paid an employee or a third party rather than paying the vendor directly (page 11).

- PADF's/Haiti agreement for the Protection of Human Rights Program required USAID/Haiti's written approval for certain costs. However, housing costs related to security were not approved by the awarding agencies, and PADF/Haiti staff also traveled to the Dominican Republic without obtaining approval in accordance with the agreement (page 12).

- According to Office of Management and Budget Circular A–122 (OMB A–122), Attachment A (A.4.a), a cost is allocable to a particular cost objective in accordance with the relative benefits received. However, the review found that in several cases, the cost allocations were not calculated according to the reasonable proportion of benefits received (page 13).

- According to OMB A–122, Attachment A (A.1), the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. The review disclosed that PADF/Haiti did not properly credit the Protection of Human Rights Program for repayments of rent and education allowances by one of its officers (page 14).

To help USAID/Haiti ensure that PADF/Haiti complies with CFR and the agreement, this report recommends that USAID/Haiti—

1. Require PADF/Washington to establish proper controls to maintain supporting documentation to prevent total loss of information (page 6).

2. Require PADF/Haiti to take appropriate action to safeguard all financial data by ensuring that (1) detailed accounting data are backed up, (2) backups are functional, (3) backups are stored in a safe location, and (4) data are properly safeguarded during system upgrades (page 7).

3. Require PADF/Washington to maintain proper accounting controls by enforcing detailed reconciliations of financial data on a monthly basis (page 7).

4. Confirm that PADF/Haiti implements appropriate controls enforcing timely tracking and settling of advances to employees (page 8).

5. Confirm that PADF/Haiti implements appropriate controls requiring timely payments to vendors and employees and compliance with contractual requirements (page 8).

6. Require PADF/Haiti to strengthen its controls over the award process, requiring consistent use of preaward survey documentation with all relevant information in compliance with the award document (page 9).

7. Require PADF/Haiti to develop and implement policies and procedures for completing and documenting annual physical counts of assets, including use of standard templates when conducting physical counts (page 10).

8. Require PADF/Haiti to complete updates of its policies and procedures and establish proper management controls to ensure continued timely review and updates (page 11).

9. Require PADF/Haiti to enforce its policies and procedures requiring direct payment to all vendors (page 12).

10. Make a determination regarding the unallowable questioned costs totaling $1,250 for rental of space and chairs, and recover from the recipient the amounts determined to be unallowable (page 12).

11. Require that PADF/Haiti comply with all agreement clauses and make a determination regarding the $2,731 in unsupported questioned costs for housing payments and $1,078 for foreign travel payments (page 13).

12. Require that PADF/Haiti enforce appropriate controls to review all calculations for accurate and reasonable allocations in accordance with OMB Circular A–122 (page 13).

13. Make a determination regarding unallowable questioned costs—related to the rental expenses for the Cap Haitien office totaling $26,553, security expenses for the Cap Haitien office totaling $10,924, consulting expenses totaling $350, and expenses for garage utilization totaling $608—and recover from the recipient the amounts determined to be unallowable (page 13).

14. Make a determination regarding $17,775 in questioned costs related to the $10,350 credit for rent allowance and the $7,425 credit for education allowance recovered from an employee, and recover from the recipient the amounts determined to be unallowable (page 13).

Detailed review results follow. Our evaluation of management comments begins on page 15. Appendix I contains the review's scope and methodology; Appendix II contains the full text of management comments.

REVIEW RESULTS

PADF/Haiti Lacked Proper Controls to Protect Supporting Documentation

According to 22 CFR 226.53(b), recipients of USAID awards should retain financial records, supporting documents, statistical records, and all other records pertinent to an award for 3 years. Furthermore, 22 CFR 226.53(b).4(e) states that USAID, the Inspector General, the Comptroller General of the United States, or any of their duly authorized representatives have the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards.

PADF/Haiti officials stated that in 2008 a flood destroyed many of its accounting records. As a result, for FY 2007, PADF/Haiti did not have supporting documentation for expenditures totaling $25,332 for the Trafficking in Persons Program and $866,706 for the Solid Waste Removal (SWR) Program. According to PADF/Haiti officials, they were not aware of this issue until March 2011. PADF/Haiti officials stated that they did not notify USAID/Haiti about the loss until this review began in March 2011, and it is not clear whether financial auditors learned about the missing documentation during audits performed after FY 2007. Furthermore, the A–133 audit report for FY 2007 did not mention lost documentation, nor did that audit include a scope limitation because of the lack of documentation.

A lack of policies on the part of PADF/Washington to require duplication and protection of supporting records, such as scanning of documentation to create electronic records or having a copy of the documentation retained at PADF/Washington, resulted in the loss of supporting information for FY 2007. Without supporting documentation, there is no audit trail to make an independent determination that PADF/Haiti used all funds in accordance with the terms of the agreement. To address this concern, this review makes the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Haiti require PADF/Washington to establish proper controls to secure and maintain supporting documentation to prevent total loss of information.*

PADF/Haiti Lacked Adequate Controls to Protect Financial Data

According to 22 CFR 226.21(b)(7), recipients' financial management systems shall provide accounting records, including cost accounting records, that are supported by source documentation. PADF/Washington officials explained that they had a policy requiring the computer systems manager to maintain backups of the accounting system data. PADF/Haiti followed the backup policy; however, not all of the backed-up data were functional.

During the review, PADF/Haiti was unable to provide detailed financial data for FY 2007 for the SWR program. PADF/Haiti explained that the accounting data became corrupted, and the data backups were not functional. According to PADF/Haiti, the data were corrupted when PADF/Haiti upgraded its accounting system during 2008. Because PADF failed to design and implement effective management controls to ensure that detailed financial data are properly backed up, stored in a safe location, system backups are functional, and data are protected during system upgrades, PADF/Haiti financial data for the costs reviewed were corrupted.

Without a functional accounting system, internal and external auditors cannot analyze detailed expenditures and verify them against supporting documentation, thereby corroborating the accuracy of accounting data. To address this concern, this review makes the following recommendation.

> ***Recommendation 2.*** *We recommend that USAID/Haiti require PADF/Haiti to take appropriate action to safeguard all financial data by ensuring that (1) detailed accounting data are backed up, (2) backups are stored in a safe location, (3) backups are functional, and (4) data are properly safeguarded during system upgrades.*

PADF/Washington Did Not Complete Timely and Detailed Financial Data Reconciliations

According to OMB A–122, Attachment A (A.2.e), costs are allowable under an award if the costs are determined in accordance with generally accepted accounting principles. Furthermore, OMB A–133, Subpart C 300(b), indicates that the auditee has a responsibility to maintain internal control that provides reasonable assurance that it is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs. Although the regulation does not state what controls recipients should have to provide reasonable assurance, financial data reconciliations are usually utilized to provide reasonable assurance that financial data are reliable.

PADF/Haiti recorded detailed transactions pertaining to all programs in its accounting system. Each month, PADF/Washington recorded total costs reported by PADF/Haiti and then reconciled the total costs recorded in its general ledger with those in the PADF/Haiti general ledger to ensure data accuracy. However, no reconciliations were conducted at the account level. Furthermore, for the Emergency Shelter Rehabilitation (ESR) Program, PADF/Washington did not reconcile the financial data from April through June 2010.

According to PADF/Washington officials, PADF/Haiti is in the process of updating the accounting system, and starting with FY 2011 it will reconcile the accounting data by account. PADF/Haiti officials also explained that they had not processed reconciliations for the ESR program from April through June 2010 because they were evaluating the accounting system and considering switching accounting software.

Without detailed reconciliation of accounting records, it is not possible to determine whether PADF is reporting expenditures in their proper categories. This may result in inaccurate accounting at the account level, which may make any analysis of results pointless. To address this concern, this review makes the following recommendation.

> ***Recommendation 3.*** *We recommend that USAID/Haiti require PADF/Washington to maintain proper accounting controls by enforcing detailed reconciliations of financial data on a monthly basis.*

PADF/Haiti Did Not Always Make Timely Payments

22 CFR 226.47 requires USAID recipients to maintain a system for contract administration to ensure contractor conformance with the terms, conditions, and specifications of the contract and to ensure adequate and timely follow-up of all purchases. Furthermore, 22 CFR 226.21 requires that recipients' financial management systems provide for effective control over and accountability for all funds, property, and other assets.

PADF/Haiti did not always make timely payments to vendors and employees. For example, as part of the Protection of Human Rights (PHR) Program, PADF/Haiti should have made a payment to the Centre d'Appui Familial in February 2010, with a final payment in April 2010. However, PADF/Haiti did not remit the payment for February and instead remitted a combined payment for February and April in May 2010. Similarly, PADF/Haiti paid a consultant supporting the PHR program for work done January through September 2009 in October 2009, not monthly as required. Additionally, four employees from PHR waited up to 3 months to receive their final payment from PADF/Haiti.

According to PADF/Haiti management, some employees received their final pay late because they were responsible for filing and settling any advance payments (e.g., travel advances) before receiving their final pay. However, review of the accounting records did not indicate that PADF/Haiti deducted advances from the final pay of the employees who received late payments. Furthermore, PADF/Haiti should ensure that employees settle their travel advances promptly after completing travel, rather than waiting to settle the advances when final pay for the employees is processed. In addition, PADF/Haiti indicated that the late payments to the Centre d'Appui Familial and the consultant mentioned in the previous paragraph were exceptions.

PADF/Haiti did not comply with contractual terms and laws, and regulations because it did not have effective controls to track advances to employees and compliance with contractual requirements in accordance with 22 CFR 226.47. This resulted in late payments to vendors and employees. Timely payment to employees and vendors ensures compliance with laws and regulations; failure to comply may result in a potential liability to PADF/Haiti. To address this concern, this review makes the following recommendations.

> ***Recommendation 4.*** *We recommend that USAID/Haiti confirm that PADF/Haiti implements appropriate controls enforcing timely tracking and settling of advances to employees.*

> ***Recommendation 5.*** *We recommend that USAID/Haiti confirm that PADF/Haiti implements appropriate controls requiring timely payments to vendors and employees and compliance with contractual requirements.*

PADF/Haiti Did Not Always Use Preaward Surveys Properly

According to USAID/Haiti's award to PADF/Haiti for the PHR program, the subawardee selection process required preaward surveys detailing the needed services or activities, eligible activities, criteria for selection, and application guidelines. Applications also required descriptions of the proposed activities, beneficiaries, geographic scope, and budget; an explanation of how the activity would support the program's goals; and basic financial and organizational background information. Furthermore, grants and services greater than $5,000 required approval by a selection committee of four to six persons. In the event that only one organization was available and capable of implementing the activities, sole-source selection would be used and justification would be documented, noting other options explored.

The review noted that four out of nine subawards selected judgmentally lacked supporting documentation showing that PADF/Haiti conducted preaward surveys. When PADF/Haiti utilized preaward surveys, the surveys lacked the following information:

- Criteria for the selection.
- Application guidelines.
- The preparation date of the survey.
- Names and/or signatures of preparer and interviewer and/or the selection committee.
- Evidence of review and acceptance (sign-offs by reviewers), including justification for why a particular awardee was chosen.
- Proof that more than one potential candidate for the subaward was interviewed prior to accepting a proposal—or justification for sole-source selections.

PADF/Haiti maintained documentation on the subawardee selection process but lacked procedures to ensure compliance with the agreement regarding preaward surveys as required by the PHR award. In addition, PADF/Haiti did not use standard templates to document the criteria for the selection, review, and approval process; approvals by the selection committee; and so forth. As a result, PADF/Haiti may have selected more costly subawardees. To address this concern, this review makes the following recommendation.

> ***Recommendation 6.*** *We recommend that USAID/Haiti require PADF/Haiti to strengthen its controls over the award process, requiring consistent use of preaward survey documentation with all relevant information in compliance with the award document.*

PADF/Haiti Did Not Complete Physical Counts of Assets

22 CFR 226.21(b)(3) requires recipients' financial management systems to provide effective control over and accountability for all funds, property, and other assets. Furthermore, recipients should adequately safeguard all assets and use them solely for authorized purposes. Although the regulation does not direct specific controls, physical counts of assets are recognized as effective tools to ensure that assets are properly protected.

PADF/Haiti relies on physical counts of assets to safeguard assets. However, PADF/Haiti did not complete a physical count of assets for the PHR program during FY 2008. In addition, PADF/Haiti did not maintain the original documentation supporting the physical counts for FY 2009. PADF/Haiti officials indicated that they kept only the updated asset registry after conducting the physical counts.

These problems occurred because PADF/Haiti lacked detailed policies and procedures outlining how to conduct and document the physical count of assets. Furthermore, PADF/Haiti did not utilize standard documentation when performing the physical counts of assets. Without proper documentation supporting the physical count of assets, it is not possible to determine who conducted and reviewed the count, when the count was completed, or the original inventory on hand and the results of the count. Lack of compliance with the requirements of 22 CFR 226 could result in assets becoming more vulnerable to theft and loss. To address this concern, this review makes the following recommendation.

> ***Recommendation 7.*** *We recommend that USAID/Haiti require PADF/Haiti to develop and implement policies and procedures for completing and documenting an annual physical count of assets, including use of standard templates when conducting physical counts.*

PADF/Haiti's Policies and Procedures Were Incomplete

22 CFR 226.21(b)(6) requires that the recipient maintain written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with federal cost principles and the terms and conditions of the award. Furthermore, OMB A–133, Subpart C 300(b), indicates that the organization is responsible for maintaining internal control that provides reasonable assurance that it is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

PADF/Haiti's policies and procedures that address how to account for costs charged to USAID programs in accordance with regulations were incomplete. They did not address the following areas:

- Guidelines outlining when the use of a contract is required (e.g., threshold amounts requiring the use of an agreement) and standard clauses required for an agreement.

- The budget review and approval process.

- The segregation of duties.

- Requirements related to requesting advances of funds from the mission (e.g., required documentation, approvals, etc.).

PADF/Haiti policies and procedures were incomplete because its officials failed to review them for revisions needed to provide reasonable assurance that operational and financial information was relevant and reliable in accordance with regulations. PADF/Haiti officials indicated that they were in the process of rewriting their policies and addressing many of these concerns.

As a result, PADF/Haiti's policies and procedures did not provide reasonable assurance that operational and financial information was relevant and reliable in accordance with regulations. Furthermore, PADF/Haiti purchased high-value services without an agreement. Specifically, for the PHR program, PADF purchased silk-screening services for $17,205 and $16,275 without utilizing agreements. The lack of complete policies and procedures may result in unsupported or questioned costs because expenditures may not comply with agreement terms. To address this concern, this review makes the following recommendation.

> ***Recommendation 8.*** *We recommend that USAID/Haiti require PADF/Haiti to complete updating its policies and procedures and establish proper management controls to ensure continued timely review and updates.*

PADF/Haiti Made Payments to Third Parties Rather Than Directly to Vendors

As a best practice, organizations should require that vendors be paid directly to safeguard assets. PADF/Haiti's policies and procedures reflect this practice; for example, the PADF/Haiti procedures manual dated January 2008 requires that payments to vendors be given to the office manager, who is responsible for contacting the vendors to collect the check(s), or to a messenger or driver who will carry the check(s) to the vendors. This practice is a safeguard to ensure proper segregation of duties. Furthermore, according to OMB A–122, Attachment A (A.2.g), costs must be adequately documented before they can be considered allowable under an award. However, the review found that PADF/Haiti paid an employee or a third party rather than paying the vendor directly in the following instances:

- Contrary to general practice, PADF/Haiti made rental payments for the ESR program director's house to the employee rather than to the vendor. Furthermore, the employee did not provide a copy of the canceled check as support for the reimbursement, and the signature on the receipt presented as backup did not match the signature of the vendor per the contract. The payments to the employee totaled $10,000.

- During the PHR program, PADF/Haiti established a vendor agreement with the Ministry of Women (Ministère à la Condition Féminine et aux Droits des Femmes). However, instead of paying the organization, PADF/Haiti issued payment of approximately $14,000 to the ministry's director.

- During the PHR program, on August 17, 2010, PADF/Haiti paid an employee $1,250 for the rental of space and chairs for a meeting rather than paying the vendor directly. Furthermore, the review found that the documentation supporting the expenditure appeared invalid. The expenditure was supported by an invoice bearing the company name and a document supposedly prepared by the owner of the company indicating that he received payment for the expenditure. However, independent inquiries made to confirm receipt of the amount showed the phone number listed on the invoice was not for the person or company listed on the invoice. Also, the date on a list of meeting attendees included in the files was altered and did not agree with the actual event date, and the names of attendees appeared to have been written by the same person rather than by each individual attendee.

- During the PHR program, PADF/Haiti paid $17,205 to an individual rather than to the company, Digi Plus, that provided silk-screening services. Although the amount was significant, PADF/Haiti did not have a contract with this vendor.

Although PADF/Haiti management stated its belief that each of these payments was justified, its explanations failed to address the risk of misappropriation created by the lack of internal control. In the instances cited, PADF/Haiti did not follow the requirements in its procedures manual. In each of these situations, PADF/Haiti could have issued checks in the vendor's name, thereby mitigating risk, or selected other vendors that were willing to conduct business in accordance with PADF/Haiti's payment policies.

Lack of enforcement of policies and procedures may result in the misappropriation of assets if payments are made to a party that does not represent the vendor. To address this concern, this review makes the following recommendations.

> ***Recommendation 9.*** *We recommend that USAID/Haiti require PADF/Haiti to enforce its policies and procedures requiring direct payment to all vendors.*

> ***Recommendation 10.*** *We recommend that USAID/Haiti make a determination regarding the unallowable questioned cost for rental of space and chairs totaling $1,250 and recover from the recipient the amounts determined to be unallowable.*

PADF/Haiti Did Not Obtain Approvals for All Expenditures

PADF/Haiti's agreement for the PHR program required USAID/Haiti's written approval for certain costs. However, the review noted that PADF/Haiti incurred the following expenditures without obtaining the proper approvals:

- In accordance with OMB A–122, Attachment B (20.a), costs of housing are allowable as direct costs to the sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies. However, the review noted that while PADF/Haiti obtained approval for housing costs totaling $2,500 per month for the PHR program director, the reported expenditures for housing totaled $3,222 per month for 3 months in FY 2009, including $922 for security. PADF/Haiti provided no evidence of USAID approval for these additional costs, which resulted in total unsupported questioned costs of $2,731 for 3 months (adjusted for currency fluctuations).

- Clause 18.a of the agreement states that, in accordance with OMB cost principles, direct charges for foreign travel are allowable only when each foreign trip has received prior budget approval. PADF/Haiti reported foreign travel to the Dominican Republic on March 26, 2009; however, it had not obtained approval in accordance with the agreement. This resulted in total unsupported questioned costs of $1,078.

PADF/Haiti did not seek approval for the security cost because it understood that it was approved in the budget as a housing cost. For foreign travel, PADF/Haiti did not obtain approval because it considered travel to the Dominican Republic to be domestic travel. Lack of compliance with the agreement has resulted in added costs not intended by the agreement. To address this concern, this review makes the following recommendation.

> ***Recommendation 11.*** *We recommend that USAID/Haiti require that PADF/Haiti comply with all agreement clauses and make a determination regarding the $2,731 in unsupported questioned costs for housing payments and $1,078 for the foreign travel payments.*

PADF/Haiti Did Not Properly Allocate All Program Costs

According to OMB Circular A–122, Attachment A (A.4.a), a cost is allocable to a particular cost objective, such as a grant or other activity, in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose and if it is distributed in reasonable proportion to the benefits received.

While PADF allocated certain expenses across multiple programs, PADF did not always calculate the cost allocations according to the reasonable proportion of benefits received:

- PADF/Haiti charged the PHR program for office rental payments for an office located in Cap Haitien; however, PADF/Haiti maintained no evidence to indicate that the Cap Haitien office was utilized solely for the PHR program. For instance, PADF/Haiti's rental agreement makes no reference to the PHR program. Furthermore, a USAID/Haiti official who visited the Cap Haitien office in 2007 attested that PADF/Haiti was operating more than one program from this location. Specifically, the USAID/Haiti official claimed that the office housed the PHR program, the Cap Haitian Prison Program funded by the Canadian Government, and the Office to Monitor and Combat Trafficking in Persons funded by the State Department. Therefore, it is unreasonable to allocate the entire rental cost to the PHR program. The review estimated unallowable questioned costs totaling $26,553 by estimating that the office was shared by at least three programs.

- In addition to the rental costs, PADF/Haiti charged the PHR program for security costs for the Cap Haitien office. Specifically, PADF/Haiti charged the PHR program approximately $1,200 per month for security costs; however, as previously discussed, PADF/Haiti did not use the Cap Haitien office exclusively for the PHR program, and therefore not all of the security costs are allowable. The review estimated unallowable questioned costs totaling $10,924 by estimating that the office was shared by at least three programs.

- PADF/Haiti overcharged the ESR program for consulting services. The consultant worked 73 days, and PADF/Haiti charged the program for 74 days, resulting in questioned costs of $350.

- PADF/Haiti's cost calculations for garage services charged to the PHR program in June and July 2007 contained errors. Specifically, PADF/Haiti allocated the costs for mechanic services to the PHR program, even though the costs were incurred prior to the effective date of the PHR program. Furthermore, PADF/Haiti did not allocate costs across all vehicles because it excluded broken vehicles stored in the garage from the allocation base. These discrepancies resulted in unallowable questioned costs totaling $608.

PADF/Haiti personnel incorrectly allocated costs because PADF/Haiti lacks proper controls to ensure that such allocations are distributed reasonably proportionately to all applicable programs in accordance with OMB guidance. Errors in calculating and allocating costs have resulted in overpayment of expenditures to PADF/Haiti. To address this concern, this review makes the following recommendations.

> ***Recommendation 12.*** *We recommend that USAID/Haiti require that PADF/Haiti enforce appropriate controls to review all calculations for accurate and reasonable allocations in accordance with Office of Management and Budget Circular A–122.*

> ***Recommendation 13.*** *We recommend that USAID/Haiti make a determination regarding the unallowable questioned costs—related to the rental expenses for the Cap Haitien office totaling $26,553, security expenses for the Cap Haitien office totaling $10,924, consulting expenses totaling $350, and expenses for garage utilization totaling $608–and recover from the recipients the amounts determined to be unallowable.*

PADF/Haiti Did Not Credit USAID for Refunds of Rent and Education Allowances

According to OMB A–122, Attachment A (A.1), the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. PADF/Haiti is required to adhere to these cost principles, and therefore is responsible for ensuring that expenditures charged to any program are reduced by any applicable credits.

The review identified an instance in which PADF/Haiti did not properly credit the PHR program. PADF/Haiti charged the PHR program for rent paid on behalf of the program director for December 12, 2007, through June 14, 2008; however, the individual left the program on January 1, 2008, and was required to repay rent and education allowances upon his departure. However, the PHR program did not record the credit for the amounts repaid, which totaled $10,350 for rent allowance and $7,425 for education allowance.

According to PADF/Washington officials, the PHR program did not receive the appropriate credit for the education and housing allowances repaid by the program director because PADF/Washington processed the final payment and forgot to credit the PHR program in Haiti for the adjustment in final pay. Failure to allocate applicable credits resulted in overpayment of funds from the PHR program totaling $10,350 for rent allowance and $7,425 for education allowance. To address this concern, this review makes the following recommendation.

> ***Recommendation 14.*** *We recommend that USAID/Haiti make a determination regarding $17,775 in questioned costs related to the $10,350 credit for rent allowance and the $7,425 credit for the education allowance recovered from an employee and recover from the recipient the amounts determined to be unallowable.*

EVALUATION OF MANAGEMENT COMMENTS

In comments on the draft report, USAID/Haiti agreed with all 14 recommendations, 10 of which required the establishment of procedures for more effective management and 4 of which addressed questioned costs totaling $61,249. USAID/Haiti stated that the recommendations will enable PADF to improve the overall management of future USAID-financed activities in Haiti.

The mission provided an action plan and time frames for the implementation of each recommendation. (For details, see Appendix II.) Therefore, we concluded that management decisions have been reached on all recommendations.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this review in accordance with generally accepted government auditing standards. This review is not an audit, but it complies with the general standards in Chapter 3 as well as with the evidence and documentation standards in Paragraph 7.55 and Paragraphs 7.77 through 7.84 of *Government Auditing Standards*.[*] Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions in accordance with the review objective. The objective of this review was to determine whether the financial management controls for the PADF/Haiti office provide reasonable assurance that PADF/Haiti is reporting reliable financial information for its USAID-funded awards.

In planning and performing the review, we assessed PADF/Haiti's controls related to its program activities. The management controls tested included controls over advances of funds, contractual compliance and subawards, bank accounts and cash management, accounting and financial reporting, budgeting, payroll and human resources, fixed assets, cost sharing, indirect costs, segregation of duties, and procurement.

The review covered the expenditures incurred for the Trafficking in Persons, Solid Waste Removal, Protecting Human Rights, and Emergency Shelter Rehabilitation Programs from October 1, 2007, to September 31, 2010. The Regional Inspector General conducted the review in Port Au Prince, Haiti, from March 21 to April 14, 2011.

Methodology

To answer the review objective, we selected a judgmental sample from the above-mentioned programs managed by PADF/Haiti and tested whether management controls were operating effectively. We met officials from USAID/Haiti, including the technical officers responsible for overseeing the programs' activities and the program officers. We also met with officials from PADF/Haiti and PADF/Washington. We reviewed award documents for the review period to obtain an understanding of the programs' requirements related to management controls, reporting, and compliance with OMB A–122 and 22 CFR 226.

[*] *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

MANAGEMENT COMMENTS

TO: Catherine Trujillo, RIG/San Salvador

FROM: Carleene Dei, Mission Director

DATE: August 18, 2011 /s/

SUBJECT: Mission Response to the draft RIG Review Report of the Pan American Development Foundation Management Controls (Report Number 1-521-11-00X-S)

This memorandum represents USAID/Haiti's formal response to the draft RIG review report of the Pan American Development Foundation Management Controls to determine whether the Foundation is managing USAID-financed activities in Haiti efficiently and in accordance with agreement requirements and the Foundation's own policies and procedures (Report No. 1-521-11-00X-S). USAID/Haiti appreciates the time and effort of the RIG staff in carrying-out this audit and for the professional and cooperative manner in which the audit was conducted.

General Comments:

The auditors provided 14 recommendations, ten of which were actions that are directly related to establishing key procedures for the effective management of the program and four of them are questioned costs. USAID/Haiti fully agrees with the recommendations and we believe they will enable PADF to improve the overall management of future USAID-financed activities in Haiti with effective internal controls that provide reasonable assurance that it is complying with applicable requirements. An action plan and time frame are developed below regarding the implementation or closing of the recommendations.

Recommendation 1. *We recommend that USAID/Haiti require PADF/Washington to establish proper controls to secure and maintain supporting documentation to prevent total loss of information.*

Planned Action:

PADF/Washington has informed USAID/Haiti that they have begun the process of instituting a system of scanning source documentation for permanent storage to be completed by September 30, 2011. USAID Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 2. *We recommend that USAID/Haiti require PADF/Haiti to take appropriate action to safeguard all financial data by ensuring that (1) detailed accounting data are backed up, (2) backups are stored in a safe location, (3) backups are functional, and (4) data are properly safeguarded when implementing system upgrades*

Planned Action:

PADF/Washington maintains its financial data on an accounting system named Great Plains ("GP"). PADF/Washington has informed USAID Haiti that they have contracted a consultancy service to back up all PADF/ Financial ("GP") data on a monthly basis for PADF/Washington and all of their field offices, which includes PADF/Haiti. The contract for storing backup data is effective immediately beginning with the period ending July 31, 2011. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 3. *We recommend that USAID/Haiti require PADF/Washington to maintain proper accounting controls by enforcing detailed reconciliations of financial data on a monthly basis.*

Planned Action:

PADF/Washington has informed USAID/Haiti that PADF/Haiti's accounting information is now loaded directly to PADF/Washington's Great Plains ("GP") accounting system on a monthly basis from the field books to correct this problem. These accounting procedures and controls were permanently implemented with the May 30, 2011 monthly closing. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 4. *We recommend that USAID/Haiti confirm that PADF/Haiti implements appropriate controls enforcing timely tracking and settling of advances to employees.*

Planned Action:

PADF/Washington has informed USAID/Haiti that PADF/Haiti has instituted an advance ledger to control all advances given to employees and sub-recipients. Each advance will be tracked and controlled separately. These accounting procedures and controls will be permanently implemented with the July 31, 2011 monthly closing. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 5. *We recommend that USAID/Haiti confirm that PADF/Haiti implements appropriate controls requiring timely payments to vendors and employees and compliance with contractual requirements.*

Planned Action:

PADF/Washington has informed USAID/Haiti that PADF/Haiti has instituted a "tickler file" and a log of "aging of accounts payables" to ensure that payments are made on a timely basis. These accounting procedures and controls are effective with the July 31, 2011 monthly closing. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 6. *We recommend that USAID/Haiti require PADF/Haiti to strengthen its controls over the award process, requiring consistent use of pre-award survey documentation with all relevant information in compliance with the award document.*

Planned Action:

PADF/Washington has informed USAID/Haiti that in conjunction with PADF/Haiti they are reviewing and updating PADF/Haiti's grant policies and procedures, and the changes will be incorporated in the Procedure Manual by September 30, 2011. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of implementation of the updated policy and related procedures.

Recommendation 7. *We recommend that USAID/Haiti require PADF/Haiti to develop and implement policies and procedures for completing and documenting annual physical count of assets, including use of standard templates when conducting physical counts.*

Planned Action:

PADF/Washington has informed USAID/Haiti that PADF/Haiti will continue to conduct annual inventories of all equipment items and document and reconcile its physical count with its financial records. The next inventory will be performed prior to September 30, 2011 and every year end thereafter. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of implementation of the updated policy and related procedures.

Recommendation 8. *We recommend that USAID/Haiti require PADF/Haiti to complete updating its policies and procedures and establish proper management controls to ensure continued timely review and updates.*

Planned Action:

PADF/Washington has informed USAID/Haiti that in conjunction with PADF/Haiti they already have updated and revised its policies, and the updated manual is effective July 31, 2011. Further updates and/or reviews will occur at least annually. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 9. *We recommend that USAID/Haiti require PADF/Haiti to enforce its policies and procedures requiring direct payment to all vendors.*

Planned Action:

PADF/Washington has informed USAID/Haiti that all payments will be made directly in the name of the vendor that appears on the contract, rather than a third party. These changes are reflected in the updated PADF/Haiti's Finance Manual effective July 31, 2011. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of implementation of the updated policy and related procedures.

Recommendation 10. *We recommend that USAID/Haiti make a determination regarding the unallowable questioned cost for rental of space and chairs totaling $1,250 and recover from the recipient the amounts determined to be unallowable.*

Planned Action:

PADF/Washington has informed USAID/Haiti that it agrees that this questioned cost is unallowable and the charge of $1,250 will be credited to USAID. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the final repayment action taken by PADF.

Recommendation 11. *We recommend that USAID/Haiti require that PADF/Haiti comply with all agreement clauses and make a determination regarding the $2,731 in unsupported questioned costs for housing payments and $1,078 for the foreign travel payments.*

Planned Action:

The Audit Resolution Committee (ARC) chaired by the Agreement Officer will review the supporting documents related to the questioned costs, and will make a final determination within 30 days of the issuance of the ARC report.

Recommendation 12. *We recommend that USAID/Haiti require that PADF/Haiti enforce appropriate controls to review all calculations for accurate and reasonable allocations in accordance with OMB A–122* § *A. 4.a.*

Planned Action:

PADF/Washington has informed USAID/Haiti that they will establish procedures and identify an accountant in PADF/Haiti to review on a monthly basis the correctness of all cost allocation calculations. USAID/Haiti will review the actions taken by PADF and make a final determination within 30 days of the implementation of the updated policy and related procedures.

Recommendation 13. *We recommend that USAID/Haiti make a determination regarding the unallowable questioned cost related to the rental expenses for the Cap Haitien office totaling $26,553, security expenses for the Cap Haitien office totaling $10,924, overcharged consulting expenses totaling $350, and overcharged expenses for garage utilization totaling $608; and recover from the recipients the amounts determined to be unallowable.*

Planned Action:

The Audit Resolution Committee (ARC) chaired by the Agreement Officer will review the supporting documents related to the questioned costs, and will make a final determination within 30 days of the issuance of the ARC report.

Recommendation 14. *We recommend that USAID/Haiti make a determination regarding $17,775 in questioned cost related to $10,350 credit for rental allowance and $7,425 credit for the education allowance recovered from an employee and recover from the recipient the amounts determined to be unallowable.*

Planned Action:

PADF/Washington has informed USAID/Haiti that they had made a determination on April 12, 2011, that the recovered rental and education allowance should have been credited to the PHR program, and the appropriate accounting entries were made at that time. The Audit Resolution

Committee (ARC) chaired by the Agreement Officer will review the supporting documents related to the questioned costs, and will make a final determination within 30 days of the issuance of the ARC report.

Once again, we would like again to express our appreciation for the professional manner in which the audit was conducted. The initiative of listing in advance the documentation needed for the audit contributed to a smoother implementation of the field work.

This audit has given us the opportunity to receive clear and to the point recommendations that would have enabled us, under different circumstances, to improve overall management of activities conducted by PADF in Haiti.