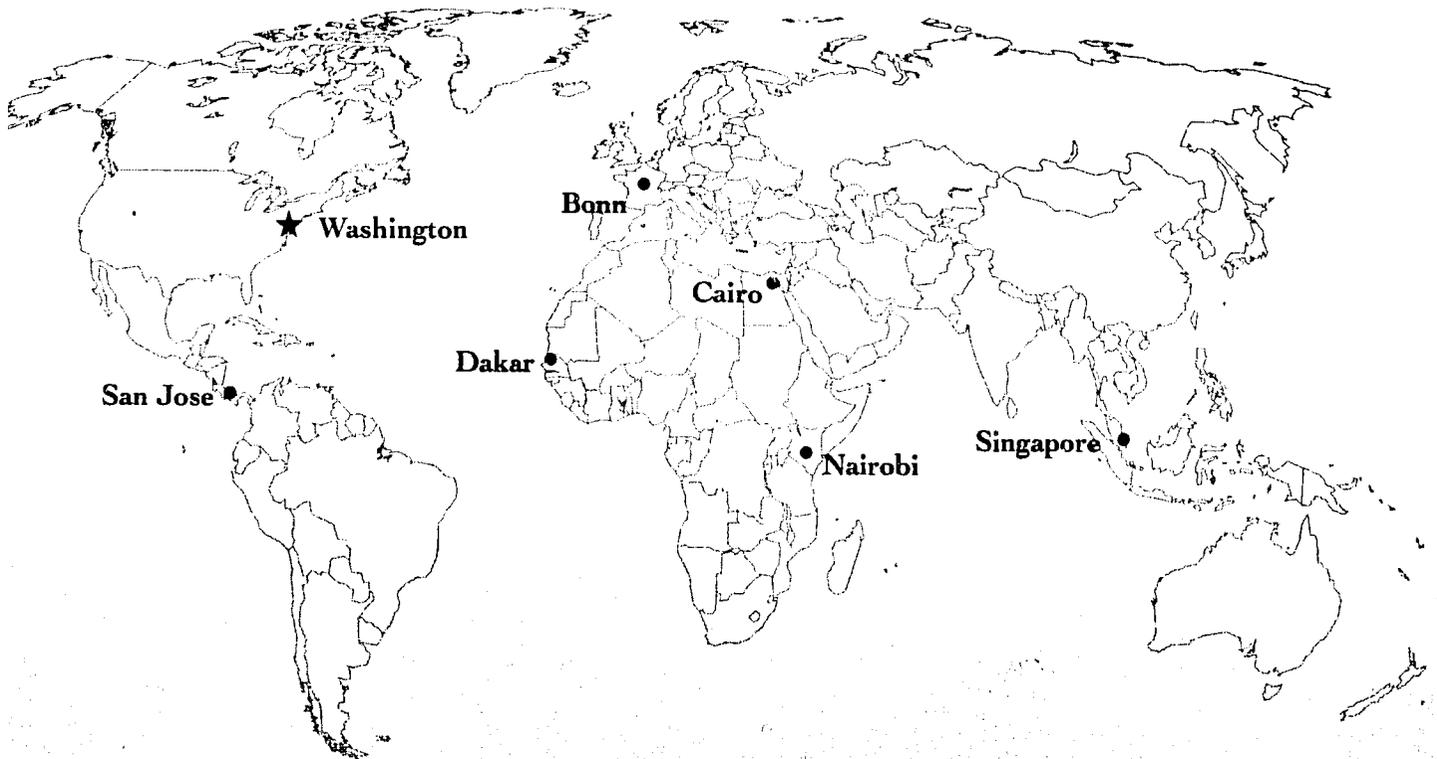


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# Audit of USAID West Bank/Gaza and PVO Recipients' Capability to Implement USAID Programs

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Report No. 6-294-95-008  
July 5, 1995



INSPECTOR  
GENERAL



CAIRO, EGYPT

**UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

July 5, 1995

**MEMORANDUM FOR Director USAID/West Bank and Gaza, Christopher D. Crowley**

**FROM :** RIG/A/Cairo, *Philippe L. Darcy*

**SUBJECT:** Audit of USAID West Bank/Gaza and PVO Recipients' Capability to Implement USAID Programs

Following is the subject audit report. In preparing this report, we considered USAID/West Bank and Gaza's June 29, 1995 written response to our draft issued April 23, 1995. A copy of that response is included as Appendix II of this report.

This report contains three recommendations, two of which have two or more subparts. Based on your written response, we consider all three parts of Recommendation No. 1, Recommendation Nos. 2.2, and 2.5, and Recommendation No. 3 as closed. Recommendation Nos. 2.1, 2.3 and 2.4 are resolved and may be closed upon receipt by this office of documentary evidence that the cited actions are complete. Please provide an update of the status of corrective actions within 30 days.

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

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## EXECUTIVE SUMMARY

Following the 1993 Declaration of Principles between the Palestinian Liberation Organization and Israel, the United States dramatically increased its economic assistance to the West Bank and Gaza to a rate of about \$75 million a year for the next five years. In order to properly manage the increased program, USAID established a field mission in late 1994 and early 1995 with offices in Tel Aviv and Jerusalem and transferred responsibility for project monitorship from Washington to the newly-established field office (USAID/West Bank and Gaza).

In order to accomplish its aims, USAID must adequately monitor its programs and ensure that recipients in the West Bank and Gaza have the capability to implement USAID projects. The audit answered the following questions: (1) does USAID/West Bank and Gaza have the capability to adequately monitor USAID's programs and (2) do Private Voluntary Organization (PVO) recipients have the capability to implement USAID programs? Appendix III shows the USAID/West Bank and Gaza portfolio summary.

For the first question, the audit determined that USAID/West Bank and Gaza has now assumed project officer responsibility for USAID programs in the West Bank and Gaza and has personnel in place in Tel Aviv and Jerusalem to adequately monitor these programs — although access can always be limited due to security considerations. The Agency has also shifted contractor and grant officer responsibility from Washington, D.C. to the Regional Contracting Officer in Amman, thus making it easier for the Mission to handle contracts, grants, and agreements. USAID/West Bank and Gaza has also worked closely with other U.S. governmental agencies, United Nations agencies, the World Bank, the Palestinian Housing Council, and contractors to assist with project implementation.

Concerning recipients' capabilities, we determined that PVO recipients in the West Bank and Gaza generally have the capability to implement USAID programs. West Bank and Gaza offices of four of six PVO recipients covered by this audit (Agricultural Cooperative Development International, Catholic Relief Services, Save the Children Federation, and the Society for the Care of the Handicapped) had personnel and procedures in place to adequately administer and monitor their USAID cooperative agreements. Further, four of the six PVOs (Agricultural Cooperative Development International, American Near East Refugee Aid, Catholic Relief Services, and Save the Children Federation) appeared to have adequate financial capability to account for funds provided by USAID under their cooperative agreements.

However, the audit found that:

- USAID/West Bank and Gaza needs (1) an improved data base on project activities, (2) regular audits of subrecipients, and (3) Agency-mandated clauses in recipients' subagreements.
- Some recipients need to improve their capability to implement programmatic or financial aspects of USAID programs.

This audit is one of two audits we intend to conduct on recipients' capabilities. As USAID begins to rely more on Palestinian institutions to handle USAID economic assistance, we will audit their capability to handle USAID economic assistance.

The report includes three recommendations designed to strengthen USAID/West Bank and Gaza's monitoring and to improve programmatic and accounting controls for several of the recipients.

In its written response to the draft report, USAID/West Bank and Gaza stated that it was pleased that this report recognized its efforts in initiating an effective monitoring program. The Mission stated further, however, that it was concerned about its ability to sustain its monitoring efforts, given the size and expansion of its program and the limitations in size and experience of its staff. Nevertheless, USAID/West Bank and Gaza agreed with the audit recommendations and stated that it has taken action to implement all three recommendations. Accordingly, USAID/West Bank and Gaza requested that all recommendations be closed upon issuance of the final report (see pages 19-20).

*Although USAID/West Bank and Gaza stated that action has been taken to implement all three recommendations, some actions remain in progress. As a result, we consider all three parts of Recommendation No. 1, Recommendation Nos. 2.2, and 2.5, and Recommendation No. 3 as closed upon issuance of the final report. Recommendation Nos. 2.1, 2.3, and 2.4 are resolved, but remain open pending completion of the actions cited by management in its response (see pages 19-20).*

USAID/West Bank and Gaza's response is included in its entirety as Appendix II to this report.

*Office of the Inspector General*  
Office of the Inspector General  
June 29, 1995

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# INTRODUCTION

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## Background

Following the 1993 Declaration of Principles between the Palestinian Liberation Organization and Israel, the United States dramatically increased its economic assistance to the West Bank and Gaza to a rate of about \$75 million a year for the next five years. In order to properly implement the increased role in the West Bank and Gaza, USAID established a field mission in late 1994 and early 1995 with offices in Tel Aviv and Jerusalem and transferred responsibility for project monitorship from Washington to the newly-established field Mission (USAID/West Bank and Gaza).

In order to accomplish its aims, USAID must ensure that it and its recipients in the West Bank and Gaza have the programmatic and financial capability to implement USAID projects until local government institutions are fully established. These recipients included six U.S. Private Voluntary Organizations (PVO) and one local PVO.

Appendix III shows the USAID/West Bank and Gaza portfolio summary.

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## Audit Objectives

As part of its Fiscal Year 1995 Audit Plan, the Office of the Regional Inspector General for Audit, Cairo, reviewed USAID/West Bank and Gaza's programs to answer the following audit objectives:

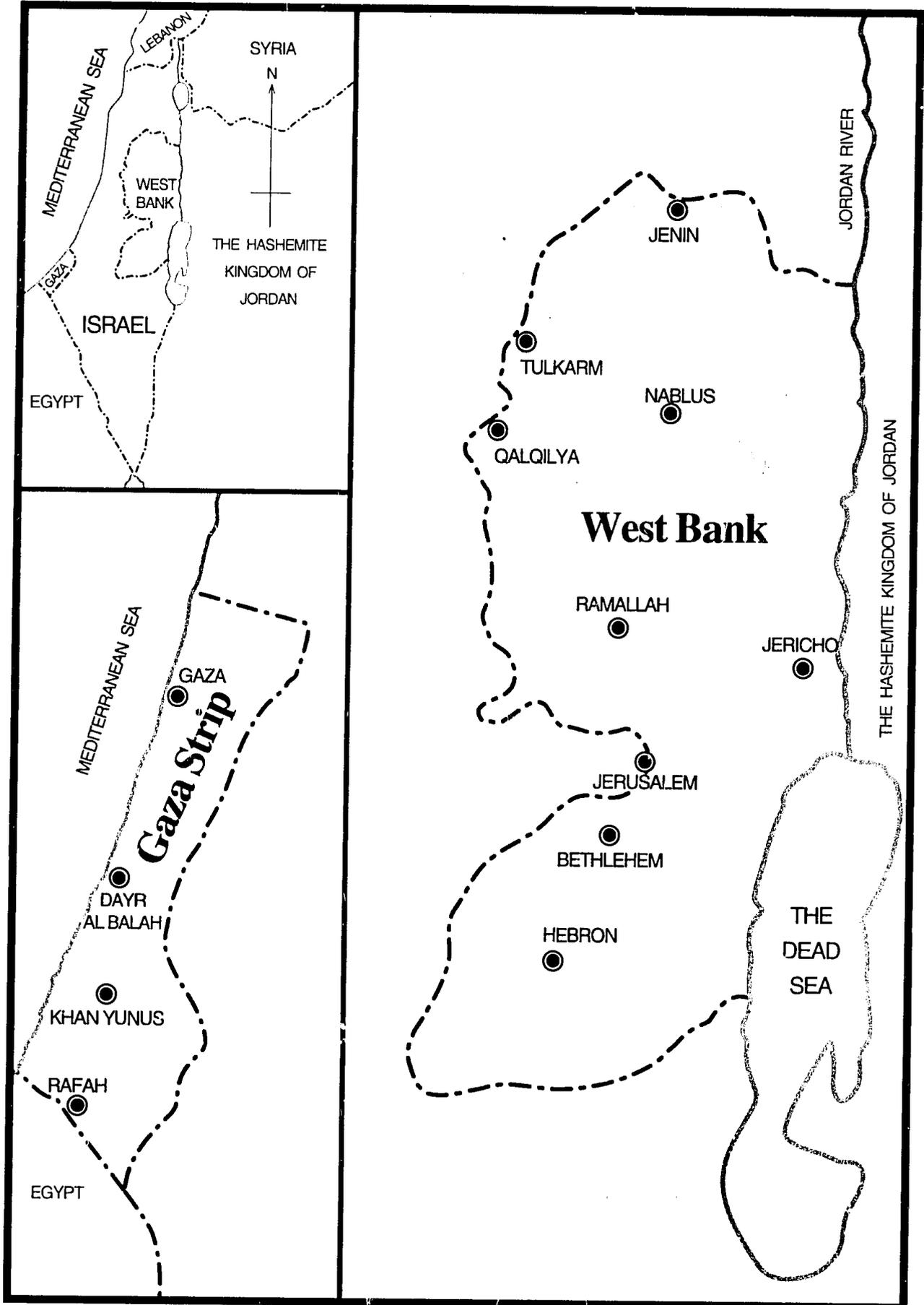
- Does USAID/West Bank and Gaza have the capability to properly monitor USAID programs?
- Do Private Voluntary Organization recipients in the West Bank/Gaza have the capability to implement USAID programs?

In answering the audit objectives, we assessed USAID/West Bank and Gaza's organizational capabilities to monitor the program. We also tested whether organizations implementing USAID's program have the programmatic and financial capabilities to implement USAID programs in the West Bank and Gaza. We did not assess the capability of Palestinian institutions to handle economic assistance, as these organizations are yet to be fully operational. We intend to cover these organizations in a future audit, as USAID begins to rely on them to handle economic assistance. The audit's scope and methodology are discussed in Appendix I.

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# West Bank and Gaza



## **REPORT OF AUDIT FINDINGS**

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### **Does USAID/West Bank and Gaza have the capability to properly monitor USAID programs?**

Despite some continuing institutional constraints and problems with its monitoring program, USAID/West Bank and Gaza has the capability to monitor its programs.

Organizational impediments to the Mission assuming full responsibility for program monitorship have largely been removed. USAID/West Bank and Gaza has now been assigned project officer responsibility for its programs and has project officers in place in Tel Aviv and Jerusalem to monitor these programs. The Agency has also shifted contractor and grant officer responsibility from Washington, D.C. to the Regional Contracting Officer in Amman, an action that will provide USAID with improved access to contractual services. The Mission's staff also appeared to have improved access to Gaza that had previously been impeded by the Embassy's Regional Security Officer's concerns about security issues.

The audit also showed that the Mission has initiated an effective monitoring program. Project officers received and reviewed progress reports and were making site visits to implementing organizations and field activities. USAID/West Bank and Gaza has also closely monitored the efforts of other U.S. governmental agencies, United Nations agencies, the World Bank, the Palestinian Housing Council, and other contractors involved with implementing its program.

However, institutional constraints remain. Constraints primarily related to the newness of the recently established office and to potential limitations on access to program sites. We are not making recommendations concerning these two areas as they are either already being dealt with or are beyond USAID's control.

**Growing Pains** USAID/West Bank and Gaza is a newly-established office. Most of the staff has recently been assigned and is working to absorb the large workload associated with getting a new

Access to Program Sites Access to program sites can be an obstacle to the Mission's monitoring program. The Mission must request approval for each visit to Gaza from the Embassy's Regional Security Office (RSO). The RSO may deny approval for visits to Gaza during periods of tension. Israel may also deny access to Gaza during certain periods. Visits to the West Bank may normally be made without specific approval; however, access to the West Bank can also be limited by either the RSO or Israel due to security concerns.

In addition, as discussed below, the audit disclosed some problems regarding USAID/West Bank and Gaza's need for (1) an improved data base on project implementation, (2) the conduct of required audits, and (3) the use of Agency-mandated clauses in recipients' subagreements.

### **USAID/West Bank and Gaza Can Further Strengthen Its Capability to Monitor Programs**

USAID monitorship of its program in accordance with USAID Handbook 3 is an important factor contributing to an effective program in the West Bank and Gaza. USAID had made significant progress in improving its monitoring. But further improvements were needed: (1) an improved data base to report the status of program activities, (2) periodic audits of subrecipients as required by terms of their agreements, and (3) USAID clauses in subagreements. These changes will result in better control over project activities.

#### **Recommendation No. 1 We recommend that USAID/West Bank and Gaza:**

- 1.1 improve the data base used by recipients to provide detailed information on locations, organizations, cost, and beneficiaries of programs they implement in the West Bank and Gaza;**
- 1.2 ensure that recipients and subrecipients have required audits conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards; and**
- 1.3 require that recipients include in their future subagreements standard provisions of USAID Handbook 13, Appendix 4D, which provides USAID standard clauses for non-U.S. entities.**

USAID Handbook 3, Appendices 11A and 11E, states that monitoring includes reviewing the effectiveness of implementing organizations and ensuring that appropriate audits are performed. The Handbook also specifies means or techniques for USAID officials to use in carrying out their monitoring responsibilities. Such techniques include making site visits, obtaining reports comparing progress against plans, and making analyses of implementation progress.

USAID/West Bank and Gaza has significantly enhanced its monitoring capability in the West Bank and Gaza. Monitoring of the USAID program in this area had previously been carried out by officials traveling from Washington. However, in 1994, USAID established a mission for the West Bank and Gaza program, with offices in Tel Aviv and Jerusalem. This was followed by staffing the Mission with project officers to cover USAID-funded activities in the area and by assigning the Mission with technical officer responsibility in November 1994. Finally in January 1995, the Regional Contracting Officer in Amman, Jordan was appointed as the grants officer for the West Bank and Gaza program, thereby providing the Mission with quick access to the contracting function to handle contracts, grants and cooperative agreements.

The audit also showed that project officers received and reviewed progress reports and made required site visits. The Mission's staff also appeared to have more access to Gaza, access that had previously been impeded by security conditions in the West Bank and Gaza. Of course, access can be limited at any time if security conditions were to worsen. Based on the above, we concluded that USAID had developed an adequate capability to monitor its programs in the West Bank and Gaza.

USAID/West Bank and Gaza, however, could further strengthen monitorship of its program by:

- requiring that its recipients use data bases that clearly report program activities,
- ensuring that recipients conduct required audits of subrecipients, and
- requiring that recipients use Agency-mandated clauses in subagreements.

Use of Data Bases The audit showed that the format used by recipients for their semiannual progress reports did not show sufficient information on program activities. The Mission had developed a data base for recipients' use in reporting on the status of their program. However, this data base was generally not used as it was cumbersome to complete and examine. As the data base was not being used, recipients were not reporting on specific information — such as subrecipients, locations, cost, and beneficiaries — that concerned their programs. Therefore, the Mission could not determine just where the recipients' programs were being implemented, at what cost, and to whose benefit.

Without such information, the Mission was not able to ensure that recipients were operating toward a coordinated program of assistance to the region. To provide a coherent strategy that avoids duplication of effort, the Mission must have specific information on program activities.

Audits Prior to the formal establishment of USAID/West Bank and Gaza, USAID was not requiring that recipients conduct audits of subrecipients as required by their grants and cooperative agreements. A mandatory provision of these agreements specified that recipients have audits made for programs that exceeded certain amounts. For U.S.-based PVOs, audit

requirements were to be satisfied by audits under OMB Circular A-133. However, the audit requirements were not being fulfilled in two areas: (1) for the recipients' sub-agreements that exceeded \$100,000 and (2) for the Society for the Care of the Handicapped (SCH), a PVO indigenous to Gaza. SCH, according to its cooperative agreement, should have had an annual financial audit conducted in accordance with the USAID Inspector General's "Guidelines for Financial Audits Contracted by Foreign Recipients". We believe that these audits may have forestalled some of the potential problems concerning SCH's financial program (See pages 16-18).

Agency-Mandated Clauses The audit determined that none of the recipients used the Agency's mandatory contractual provisions in their sub-agreements with implementing activities. USAID Handbook 13, Appendix 4D, lists mandatory standard provisions that grantees are required to incorporate in their subagreements with non-U.S. entities. Included among 13 mandatory provisions in Appendix 4D are clauses concerning allowable costs; accounting, audit, and records; termination and suspension; disputes; and nonliability. Appendix 4D also lists 21 other standard provisions that are to be used where applicable. These standard and optional provisions protect USAID's interests in important areas such as cost reimbursement, disputes and audit.

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## **Do Private Voluntary Organization Recipients in the West Bank and Gaza have the capability to implement USAID programs?**

Except as noted below, Private Voluntary Organizations (PVO) recipients in the West Bank and Gaza have the capability to implement USAID programs.

West Bank and/or Gaza offices of four of six PVO recipients (Agricultural Cooperative Development International, Catholic Relief Services, Save the Children Federation, and the Society for the Care of the Handicapped) had personnel and procedures in place to adequately administer and monitor their USAID cooperative agreements. Further, four of six PVOs (Agricultural Cooperative Development International, American Near East Refugee Aid, Catholic Relief Services, and Save the Children Federation) appeared to have adequate financial capability to manage their cooperative agreements.

However, the audit disclosed some problems regarding:

- three recipients' capability to implement programmatic or financial aspects of their programs, and
- recipients' need to use appropriate markings on project sites and equipment to identify USAID as the donor.

### **Improvements Needed in Recipients' Capability to Implement Their Programs**

USAID/West Bank and Gaza must have reasonable assurance that recipients can implement their programs in accordance with USAID regulations and the terms of contracts and agreements. While generally we found that recipients had the capability to implement USAID programs, we noted that (1) two PVOs needed to improve program monitoring, (2) two PVOs' needed to improve financial management, and (3) four recipients did not maintain adequate inventory records for USAID-funded commodities. With improvement in these areas, PVOs can better utilize USAID funds.

**Recommendation No. 2** We recommend that USAID/West Bank and Gaza:

- 2.1 require that America-Mideast Educational and Training Services (AMIDEAST) and American Near East Refugee Aid (ANERA) present a plan to improve their capability to monitor and administer USAID programs;
- 2.2 request that RIG/A/Cairo contract for financial audits of disbursements under America-Mideast Educational and Training Services' Grant No. ANE-0159-G-SS-7050-00, and the Society for the Care of the Handicapped's Cooperative Agreement No. HNE-159-A-00-3049-00;
- 2.3 review for propriety American Near East Refugee Aid's payroll procedures for making dual payments in Jerusalem and Washington, D.C.;
- 2.4 determine the allowability of a \$125,424 pellet machine imported by American Near East Refugee Aid from an apparently unauthorized source and origin; and
- 2.5 require that private voluntary organizations implement inventory control procedures for current and future agreements as specified by OMB Circular A-110.

**CAPABILITY TO MONITOR AND ADMINISTER PROGRAMS.**

Two of six PVOS visited during the audit, AMIDEAST and ANERA, did not adequately administer USAID programs and will require close USAID monitoring to prevent the recurrence of the types of problems documented below.

**America-Mideast Educational and Training Services (AMIDEAST)**

Our review of two significant programs undertaken in 1993/1994 disclosed significant administrative problems which require USAID scrutiny.

**Continuing Education Agreement**

In June 1993, AMIDEAST signed a \$400,000 agreement with Birzeit University in the West Bank to establish a Continuing Education Department at the university. USAID had funded the HRD Project only through September 1993 and USAID's grant funding the project was due to terminate on September 30, 1993. But on June 24, 1993, AMIDEAST entered into an agreement with Birzeit University to support the Continuing Education Department for three years. In September 1993, AMIDEAST advanced the University \$100,065 for three years of salaries and benefits through September 1996. By March 31, 1994, USAID cancelled its support

to the HRD Project. Therefore, AMIDEAST requested that the University reimburse it for \$82,269 of unspent payroll costs that it had advanced just months earlier. The university disagreed and as of December 9, 1994, this matter had not yet been settled.

### Applied Research Agreement

AMIDEAST's administration of this agreement was also inadequate. The agreement was for research grants with individuals associated with universities and other institutions in the West Bank for research to be completed no later than December 31, 1994. Of 14 grants totalling \$111,868, AMIDEAST had made final payment of \$62,050 for 8 grants without receiving a final research product. Four other grants were not fully paid but were still in progress as of December 13, 1994. Our analysis of one of the fourteen grants showed that AMIDEAST did not ensure that grant funds were used for the intended purpose.

### American Near East Refugee Aid (ANERA)

Our visits to a sample of ANERA's sub-activities in the West Bank and Gaza areas disclosed that USAID must work closely with ANERA to help remedy significant problems regarding the utilization of USAID-funded facilities.

### Gaza Municipal Rain Water Conservation Project

The Gaza Municipal Rain Water Conservation Project was constructed at a cost of \$3 million, including \$2 million from USAID. The facility consisted of a 1.1 mile underground culvert extending from downtown Gaza to a lagoon and a settling basin. The facility was designed to collect rain water and use it to replenish aquifers and for irrigation.

In 1991, during construction, the drainage network and the reservoir accidentally became a collection system and a storage pond for the area's sewage system overflows. This happened because of the continuous population growth that resulted in an overloading in the sewage system.

ANERA, in its semi-annual report to USAID as of September 1994, reported that the rain water collection facility was not functioning effectively. ANERA stated that it was concerned that by the time the various donors coordinate, mobilize funds, and restructure project management, the already substantial public health hazards may worsen and on-site erosion during the rainy season may cause costly damage to the USAID-funded facilities already in place.

During our visit to the project in January 1995, we found that the entire system had been polluted with sewage. Further, the structure was crumbling. Therefore, the collected water

could not be used as planned. According to ANERA/Gaza officials, Gaza city officials do not have the capability to operate a major project of this size. The bottom line, however, is that the investment could be totally useless unless the problem of sewage contamination was solved. ANERA estimated that an additional investment of \$500,000 was needed to make the facility usable for its intended purposes.

It is evident that the problems with this construction project are so significant that they will require the capability of both USAID and ANERA if they are to be resolved.

### **Beit Jala Soap Factory**

At a total cost of \$420,000, including \$120,000 from USAID, an Italian-made olive press was imported in 1981 for the Beit Jala Cooperative for a facility that was to be used to manufacture soap (olive residues from pressed olives can be used to make soap). Two soap production lines were installed in 1982, and were operative until 1985 when production was stopped for technical reasons. Beit Jala Cooperative officials explained that lack of know-how was their main problem. The Cooperative, in cooperation with ANERA, has been trying to overcome these technical problems by providing overseas training for its staff, or by entering into a joint-venture with a Jordanian soap factory.

In October 1989, ANERA warned the Cooperative that if serious production did not start by December 31, 1989, ANERA would request a refund of the \$120,000 and channel it to other needs. The factory was still not operational at the time of our visit in December 1994 and no refund has been collected from the Cooperative.

No doubt a critical decision will have to be reached by USAID and ANERA if this project is to move forward.

### **Jabalia Wholesale/Retail Market**

A large building containing 34 shops was constructed on an area of 4,015 square meters in September 1992, at a total cost of \$438,523, including a \$405,000 grant from USAID. The 34 shops were auctioned for lease to Jabalia merchants (Jabalia is a suburb of Gaza City) five times during the period September 1992 to April 1994, but without any success. The sixth auction is scheduled for February 1995.

Since their construction, the shops have been closed and not used for their intended purpose. In September 1994, USAID/West Bank and Gaza reported that city officials would prepare the market for re-bidding in October 1994. During our visit to the wholesale market in January 1995, the shops were still locked. However, four shops have been rented to the Palestinian Medical Center, and are used as a clinic, which is not a wholesale merchant and therefore does not fit with the intended purposes for the facility. In addition to the medical center, other

individuals running a sports club were occupying parts of the market for little or no rent, but without any formal competition or auction for these leases. ANERA officials who accompanied us during the visit stated that they intend to evict those individuals.

### **Augusta Victoria Hospital**

Through a USAID-funded \$150,000 agreement with Augusta Victoria Hospital on May 10, 1990, a Cardiac Care Unit was procured for the intensive care unit of this hospital, located in East Jerusalem. The work on the project started in December 1991.

The project, after facing extensive delays, was finally completed in August 1994. Since then, however, the unit has not been used due to lack of operating funds which were supposed to be provided from the Lutheran World Federation, which runs the hospital. On October 21, 1994, the Federation advised ANERA that it was in the process of obtaining operating support for the coronary unit from another donor. However, the unit was still not being used as of our visit in November 1994.

In addition, this project was subject to an internal financial review by a local auditing firm. The auditor concluded that the Lutheran World Federation overbilled ANERA \$66,843 and recommended that this amount be returned. The Federation had not returned the \$66,843 as of December 1994.

The audit showed that ANERA has had some successful projects, such as Ramallah Industrial Zone, the Feed Plant, and the Slaughter House at El-Biera. However, the significant number of problem projects as reported above indicated that both USAID and ANERA needed to more closely monitor ANERA's relatively expensive activities in the West Bank and Gaza.

### **FINANCIAL CAPABILITIES**

As discussed below, of the six PVOS reviewed during this audit, we concluded that three (AMIDEAST, the Society for the Care of the Handicapped -SCH- and ANERA) had problems in their financial procedures that required USAID attention. Further, for two of the three (AMIDEAST and SCH), these problems could hinder their capability to implement their cooperative agreements. We reported the concerns about AMIDEAST and SCH to USAID/West Bank and Gaza during the audit fieldwork and recommended to the mission that financial audits be conducted to review disbursements, examine internal controls, and check compliance with terms of their cooperative agreements. By comparison, ANERA's problems were less significant, and do not hamper its capability to implement USAID's program.

### *America-Mideast Educational and Training Services (AMIDEAST)*

AMIDEAST used cash extensively, without adequate controls. AMIDEAST's accountant cashed U.S. dollar checks<sup>1</sup> for large sums and stored the cash in an ordinary file cabinet in AMIDEAST's Jerusalem office. The accountant also hand-carried large sums of cash from Jerusalem to Gaza on her person for use in Gaza. For example, in October 1994, AMIDEAST cashed 6 checks for \$57,038 for the Jerusalem and Gaza offices, of which \$26,500 was handcarried without guard to Gaza. In September 1994, AMIDEAST cashed four checks for \$49,543 for office use. The signer, payee, and approving official for one of these checks for \$12,013 was AMIDEAST's Acting Director for Jerusalem at the time.

Rather than using dollar or New Israeli Shekel checks, AMIDEAST routinely paid cash to employees, contractors, and local businesses. These cash payments were made in both dollars and shekels, sometimes without signature authorizing receipt or an itemized list of expenses justifying the disbursement. These procedures are not acceptable in an area where recipients have local banks available to handle transactions.

AMIDEAST's financial management procedures were questionable in other respects as well, as follows:

- AMIDEAST did not establish an imprest fund to control use of cash. As of December 13, 1994, when we counted cash, cash on hand was \$993 less than book records indicated. Upon inquiry, AMIDEAST's accountant remembered three items of expense equivalent to the above shortage that she said were paid but for which she had no receipts on file.
- Payments were made without proper separation of duties between requesting, approving, and disbursing officials.
- AMIDEAST did not perform bank reconciliations for its dollar account.
- The individual handling cash was not bonded or insured against theft or loss.
- AMIDEAST used a single-entry accounting system that, in our opinion, did not provide sufficient accountability to control the use of USAID funds. For example, when asked to show the final disposition of New Israeli Shekels (NIS) 13,319 (about \$4,440) Value Added Tax refund, AMIDEAST could not readily do so.

Were it not for the recent appointment by AMIDEAST of a new Country Director in Jerusalem, we would recommend that funding of AMIDEAST's Cooperative Agreement be suspended

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<sup>1</sup> AMIDEAST's accountant cashed checks for large sums at moneychangers on the streets of Jerusalem and then handcarried the cash back to the office.

pending evidence of satisfactory correction of these deficiencies. However, based on corrective actions the new Director has initiated, we believe that AMIDEAST's operations under the Agreement can continue if its operations are closely monitored and that a financial audit is performed in the near future.

### *Society for the Care of the Handicapped (SCH)*

The audit disclosed potential problems concerning financial procedures relating to SCH's controls over USAID-funded equipment, in the following areas:

1. Amounts Billed USAID.
2. Unauthorized Purchases.
3. Furniture Manufactured In-House.
4. Purchases Before the Agreement's Effective Date.
5. Internal Controls.
6. Israeli Value-Added Tax.

#### 1. *Amounts Billed USAID.*

The audit showed that SCH spent less on equipment than it billed USAID. SCH's records show \$554,887 spent for equipment from January 1, 1993 through November 12, 1994. However, SCH billed USAID \$591,711 for the same period, thereby apparently claiming \$36,824 more than spent.

SCH appeared to have overfilled from the Agreement's start. Our analysis of purchases for the period of SCH's first bill to USAID (from January 1, 1993 through August 5, 1993) disclosed that SCH spent \$135,347 for equipment during the period, while billing \$148,883; therefore, \$13,536 appears to have been overfilled for equipment during this initial period.

#### 2. *Unauthorized Purchases*

SCH purchased at least \$133,016 of equipment and furnishings that were not authorized by USAID. Attachment No. 6 to Cooperative Agreement No. HNE-0159-A-00-3049-00 lists equipment, materials and supplies authorized for procurement by USAID and states that "only those items in the following list with an estimated cost are authorized for procurement from eligible sources and origins." The audit showed, however, that at least \$133,016 purchased by SCH during 1993 and 1994 was not on the authorized list.

Examples follow:

<u>Item</u>	<u>SCH Program</u>	<u>Dollar Amount</u>
Uninterruptible		
Power Supply (UPS)	Speech & Hearing	\$10,727
Refrigerator	Speech & Hearing	2,289
Computer	Speech & Hearing	4,493
VCR and 54" Sony Television	Personnel Training	11,157
Computers and Printers	Personnel Training	14,447
Generator	Personnel Training	7,692

3. *Furniture Manufactured In-House.*

The audit indicated that SCH overbilled USAID for furniture that it manufactured using personnel and supplies already paid for by USAID under SCH's overhead account. SCH's accounts showed a total of \$40,461 of furniture purchases, many of which represented internal SCH transactions. For example, on its Payment Voucher No. 7707, July 10, 1993, SCH recorded \$15,760 of furniture that it had manufactured in-house, including such items as \$2,600 for kitchen cabinets, \$1,200 for a "cabinet with pigeon holes", and \$1,500 for lockers. The furniture was functional but not fancy, being constructed with plywood faced with enamel. SCH had no support for the amounts charged other than a list of items and the associated charge for each item.

The amounts charged for the furniture manufactured in-house appeared excessive and inappropriate, as:

- There was no support for the actual amounts charged, as discussed above, and
- SCH personnel stated that overhead accounts had already borne the personnel and materials costs for constructing the furniture. Therefore, USAID appeared to have paid for the same furniture twice.

4. *Purchases Before the Agreement's Effective Date.*

SCH's first request for reimbursement included \$6,901 for equipment purchased before April 1, 1993, the effective date of the Agreement.

## 5. *Internal Controls.*

The audit showed that SCH's controls over equipment storage and acquisition were inadequate. SCH neither maintained a list of equipment and furnishings funded by USAID nor marked items with an inventory number of individual items of equipment. Accordingly, there was no way to relate individual purchases by serial number or other identifier to what was actually on-hand. In addition, SCH did not take a periodic inventory and items funded by USAID were not identified by a USAID emblem showing that USAID had funded the item.

SCH's internal controls over procurement of equipment also did not ensure that it complied with terms of its Agreement concerning competition. SCH's records did not show evidence that it had sought competition for any of its purchases. Further, it repetitively used the same suppliers when buying equipment and furniture.

## 6. *Israeli Value-Added Tax.*

USAID routinely reimbursed SCH for Israeli Value Added Tax for equipment purchased in Israel, contrary to the cooperative agreement with USAID.

We limited our audit work of SCH as the Inspector General's Field Agent, Cairo Field Office, was conducting an investigation into allegations about SCH. We have discussed the findings in this audit report with the investigators.

## *American Near East Refugee Aid (ANERA)*

The audit determined that most of ANERA's Palestinian employees were paid a portion of their salaries in Washington, D.C., reportedly to allow them to avoid paying Israeli taxes on that portion of their salary. For example, one employee was paid \$4,106 monthly by deposit to a Washington bank while receiving an additional \$500 each month in Jerusalem. The entire monthly salary of \$2,875 of another employee working in Jerusalem was deposited to a Washington, D.C. bank.

In addition, we noted an instance where ANERA appeared to violate terms of its cooperative agreement concerning eligible sources of USAID-financed commodities. ANERA's Cooperative Agreement specifies that goods and services must have their source and origin in the United States or in the West Bank or Gaza. The audit found that ANERA had imported equipment from other sources. For example, ANERA imported at an equivalent cost of about \$125,424, a pellet machine from a contractor in the Netherlands for an animal feed plant for one of its projects.

## **INVENTORY RECORDS**

Four of the six recipients visited during the audit did not maintain inventory records that listed equipment and furnishings funded by USAID, as required by OMB Circular A-110. The Circular specifies that property records include an item description, serial number, source of property, date of acquisition, location, and acquisition cost. The Circular also requires that recipients take a physical inventory at least once every two years. As the recipients were not complying with the Circular, it was very difficult to relate individual purchases financed by USAID by serial number or other identifier to what was actually on-hand.

### **Recipients Need to Use USAID Markings for Their Projects in the West Bank and Gaza**

USAID policy requires that its projects be suitably marked to identify them as U.S. foreign assistance. The audit found that recipients seldom used appropriate USAID markings for projects or equipment financed under the West Bank and Gaza program. As a result, the U.S. role in providing assistance to the West Bank and Gaza was not made known to the program's beneficiaries.

**Recommendation No. 3 We recommend that USAID/West Bank and Gaza ensure that its recipients display USAID markings on USAID-financed projects and equipment.**

USAID Handbook 1B, Chapter 22, states that it is USAID policy that projects and equipment financed under the USAID program be suitably marked to identify them as U.S. foreign assistance. The Handbook states that the term "suitably marked" means marking with the USAID red, white, and blue emblem. Project construction sites and other project locations must display signs indicating participation by the United States in the project. Equipment was also to be so marked.

The audit found that few projects financed by USAID's program in the West Bank and Gaza displayed the required markings. We visited 22 specific projects that had been financed under USAID. Of these, only one had a marking indicating that the U.S. had provided financial assistance to this project. In addition, of the six recipients for which we conducted sites visits during this audit, none marked U.S.-financed equipment with the USAID red, white, and blue emblem.

USAID personnel informed us that in the past, security concerns had restricted the use of markings identifying U.S. participation in the project. However, according to USAID personnel, this concern has diminished significantly and USAID-funded projects and equipment should now be appropriately marked in most cases.

Appropriate markings will ensure that program beneficiaries are aware of USAID's role in providing assistance. Accordingly, USAID/West Bank and Gaza should take action, whenever significant security concerns do not intervene, to make sure that its recipients follow USAID policy that requires that project and construction sites and equipment are marked with signs or emblems that clearly identify USAID as the source of funding.

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## MANAGEMENT COMMENTS AND OUR EVALUATION

In its written response to the draft report, USAID/West Bank and Gaza stated that it was pleased that this report recognized its efforts in initiating an effective monitoring program. The Mission stated further, however, that it was concerned about its ability to sustain its monitoring efforts, given the size and expansion of its program and the limitations in size and experience of its staff. Nevertheless, USAID/West Bank and Gaza agreed with the audit recommendations and stated that it has taken action to implement all three recommendations. This action was reflected in signed amendments to current agreements with PVO recipients, which incorporated relevant parts of the report's three recommendations. Accordingly, USAID/West Bank and Gaza requested that all recommendations be closed upon issuance of the final report.

*Although USAID/West Bank and Gaza stated that action had been initiated to implement all three recommendations, some actions remain in progress. Following is a summary of actions that USAID/West Bank and Gaza has taken and our evaluation.*

For Recommendation No. 1.1, USAID/West Bank and Gaza stated that it has requested that grantees provide reports containing detailed information on locations, organizations, cost, and beneficiaries of programs they implement in the West Bank and Gaza. For Recommendation Nos. 1.2 and 1.3, the Mission stated that it has taken steps to notify grantees of the requirement to have required audits conducted and to attach USAID Handbook 13, Appendix 4D attachments to their subagreements. The Mission attached signed amendments to its current agreements with recipients showing that the above actions have been taken.

*Based on the Mission's response and action, all three parts of Recommendation No. 1 are closed upon issuance of the final report.*

Concerning Recommendation No. 2, the Mission cited actions as follows:

- Recommendation No. 2.1 USAID/West Bank and Gaza amended its agreements with America-Mideast Educational and Training Services (AMIDEAST) and American Near East Refugee Aid (ANERA) to require that they present a plan to improve their capability to monitor and administer USAID programs.

- Recommendation No. 2.2 The Mission's response formally requested that RIG/A/Cairo conduct financial audits of the cooperative agreements specified above in this report.
- Recommendation No. 2.3 The Mission stated that its legal counsel is reviewing the propriety of ANERA's payroll procedures and requested that RIG/A/Cairo's financial audit specifically review if all necessary payroll taxes were withheld and paid in accordance with local law.
- Recommendation No. 2.4 USAID/West Bank and Gaza stated that the Grant Officer will soon determine the allowability of a \$125,424 pellet machine imported by American Near East Refugee Aid from an apparently unauthorized source and origin.
- Recommendation No. 2.5 The Mission amended its current agreements to require that recipients comply with OMB Circular A-110's inventory control procedures. The Mission also requested that the financial audits conducted by RIG/A/Cairo specifically review the recipients' compliance with this requirement.

*Based on the Mission's response, we consider Recommendation Nos. 2.2 and 2.5 as closed. Recommendation No. 2.1 is resolved and may be closed upon receipt by this office of copies of AMIDEAST's and ANERA's plans to improve their capability to monitor and administer USAID programs. Recommendation Nos. 2.3 and 2.4 are resolved, but remain open pending the Legal and Grant Officers' determinations, respectively, cited above.*

For Recommendation No. 3, USAID/West Bank and Gaza stated that it has incorporated appropriate language in grants and cooperative agreements to require that USAID-financed commodities (except for vehicles for security reasons) display USAID markings. The Mission attached copies of signed amendments to existing agreements that clearly show that the appropriate language was included in grants and cooperative agreements.

*Based on the Mission's response and action, we consider Recommendation No. 3 closed.*

**SCOPE AND  
METHODOLOGY**

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**Scope**

We audited recipients' capabilities for implementing USAID's program in the West Bank and Gaza in accordance with generally accepted government auditing standards. USAID's program in the West Bank and Gaza contemplates funding of about \$375 million for Fiscal Years 1994 through 1999. The recipients covered by the audit had been awarded grants or cooperative agreements totalling about \$34.6 million. We conducted audit fieldwork from November 7, 1994 through January 19, 1995.

The audit was performed to determine (i) whether the Mission had the capability to monitor USAID programs and (ii) whether recipients in the West Bank/Gaza have the capability to implement those programs. In addition to USAID/West Bank and Gaza, we visited five U.S.-based Private Voluntary Organizations (PVOs): Agricultural Cooperative Development International; Catholic Relief Services; Save the Children Federation; American Near East Refugee Aid; and America-Mideast Educational and Training Services, and one PVO headquartered in Gaza, the Society for Care of the Handicapped.

Our audit did not cover a sixth U.S.-based PVO, YMCA -Young Men Christian Association- due to its relatively small program in this region. In addition, the Palestinian Housing Council and other Palestinian Authority organizations or institutions were also not covered under this audit, as these are still in the process of being fully established. We intend to audit the capabilities of these organizations as USAID begins to rely on them more extensively to handle economic assistance.

We performed our audit work at USAID/West Bank and Gaza offices in Tel Aviv and Jerusalem and at selected recipient offices in Washington D.C., Jerusalem, the West Bank and Gaza. We also held discussions with officials at USAID's Bureau for Europe and the Near East and at USAID's Office of Procurement and Office of Financial Management provided us with a written representation letter confirming to the best of their knowledge and belief that (a) all pertinent information was provided, (b) all known instances of irregularities or material violations were reported, and (c) the Mission has complied with all contractual agreements.

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## **Methodology**

To accomplish the audit objectives, we interviewed USAID officials in Washington D.C. and USAID/West Bank and Gaza to assess their administration of USAID programs in the West Bank and Gaza. We interviewed officials of recipient organizations in Washington and in the West Bank and Gaza to discuss how they manage programmatic and financial aspects of their programs. We also reviewed cooperative agreements, reports of site visits, periodic implementation reports, sub-agreements with implementing activities, charts of account, bank statements, invoices and vouchers, memoranda, letters, cables, and data bases to assess how well the recipients were implementing USAID's programs.

We also visited recipients' offices in Jerusalem and Gaza, as reflected in the above scope section, and several project sites in the West Bank and Gaza. In selecting the project sites, we tried to focus on high-dollar-value activities and a variety of locations and activities.

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JUNE 29, 1995

TO: Philippe L. Darcy, RIG/A/C

FROM: Christopher <sup>CPC</sup> Crowley, Director

SUBJECT: Audit of USAID West Bank and Gaza and PVO Recipients' Capability to Implement USAID Programs.

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We have reviewed the draft report and are glad that the auditor's have recognized our efforts in transferring the program to the Mission from AID/W and initiating an effective monitoring program. However, we are concerned with our ability to sustain this effort due to the magnitude (\$ 75.0 million) and expansion of the overall program, given a very limited American staff and a very limited and inexperienced local staff.

**Recommendation No. 1:** We recommend that USAID/West Bank and Gaza:

- 1.1 improve the data base used by recipients to provide detailed information on locations, organizations, cost, and beneficiaries of programs they implement in the West Bank and Gaza;
- 1.2 ensure that recipients and subrecipients have required audits conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards; and
- 1.3 require that the recipients include in their future subagreements standard provisions of Handbook 13, Appendix 4D, which provides USAID standard clauses for non-U.S. entities.

**Mission Response:**

- 1.1 The existing grant documents do not call for a report of this nature. We believe it is necessary and will assist us in managing this program more effectively. Therefore, we have informally requested a report of this nature from selected grantees. In addition, we have incorporated this report as a

required report when amending grant agreements. Based on these actions, we request that his recommendation be closed upon issuance.

**1.2 and 1.3:** The Mission has notified the grantees of the OMB 133 requirement, and have also encouraged them to attach the Handbook 13 Appendix 4D attachments to their sub-agreements, through its grant agreement amendments. Based on this action we request closure of these recommendations upon report issuance.

**Recommendation # 2:** We recommend that USAID West Bank and Gaza:

- 2.1 require that AMIDEAST and ANERA present a plan to prevent occurrences of the types of problems presented below:
- 2.2 request that RIG/A/Cairo contract for financial audits of disbursements under Grant No. ANE-0159-G-SS-7050-00 and Cooperative Agreement No. HNE-0159-A-00-3049-00;
- 2.3 review for propriety ANERA's payroll procedures for making dual payments in Jerusalem and Washington, D.C.;
- 2.4 determine the allowability of a \$ 125,424 pellet machine imported by ANERA from an apparently unauthorized source and origin;  
and
- 2.5 require that private voluntary organizations implement inventory control procedures for current and future agreements as specified by OMB Circular A-110.

**Mission Response:**

- 2.1. We shall provide a copy of the draft report to the two organizations and request that they present a plan to prevent reoccurrences of problems of the nature identified in the report. When a plan is obtained, we shall submit it to IG and request closure of this recommendation.
- 2.2. We request that RIG/A/C conduct financial audits of the two grants identified in the report as well as Cooperative Agreement No. HNE-0159-A-00-2050-00 (ACDI). We accordingly request closure of this recommendation upon report issuance.

- 2.3. The Mission's lawyer is currently reviewing this issue and will submit his opinion as to whether payments may be made outside the country. Notwithstanding the above, we request that RIG/A/C require the auditors performing the financial audit to determine if all necessary payroll taxes were withheld and paid in accordance with local payroll tax laws.
- 2.4. The Grant Officer shall review this issue and submit his/her determination shortly.
- 2.5. The Standard Provisions attached to each grant require grantees to comply with OMB Circular A-110's inventory control procedures. We ask that RIG/A/C request the auditors of the grants identified above to review the grantees compliance with this requirement. We request that this recommendation be closed upon issuance.

**Recommendation No. 3:** We recommend that USAID/West Bank and Gaza ensure that its recipients display USAID markings on USAID-financed projects and equipment.

**Mission Response:** While USAID policy as enumerated in Handbook 1B, Chapter 22 requires that project commodities be marked as stated in the report, the grants and the standard provisions thereto, do not include this requirement. We believe that steps ought to be taken to comply with Agency policy, and accordingly, have incorporated appropriate language when amending grant amendments. We anticipate that this policy shall apply to all commodities financed by AID with the exception of vehicles due to the security implications in the region. We request closure of this recommendation upon report issuance.

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## USAID/West Bank &amp; Gaza Portfolio Summary

Project Activity		Pipeline \$ million	FY95 Program \$ million	Audit Coverage
Housing	Gaza Housing Project	13.0	8.6	
	UNRWA Gaza Housing Rehab.	5.6		<u>2/ 3/</u>
	ANERA Ramallah WW Design	0.1		<u>2/</u>
	UNDP Rafah/Nablu Water Network	2.4		<u>1/</u>
	UNDP Ramallah Region Water Network	1.8		<u>2/</u>
	CFED Contract	0.3		<u>2/</u>
Private Sector	Small Business Support Project	3.0	2.0	
	YMCA Voc/Tech. Education	0.4	0.3	<u>2/</u>
	OPIC Inter-Agency Transfer	0.2		
	Builder for Peace Inter-Agency Transfer	0.4	0.5	
Democracy/Governance	Demo. Understanding & Dev. Project	2.4	3.0	
	AMIDEAST Inst. Strength/Public Admin.	1.6	2.0	<u>2/</u>
Health	Health System Support	1.5	3.0	<u>1/</u>
	Service for Handicapped & At Risk (SCH)	1.8	2.0	<u>2/</u>
	CRS Village Health	0.7		<u>1/</u>
Other PVO Programs	ANERA Coop. & Municipal Dev.	1.5	2.5	<u>1/</u>
	SCF Institutional Development	2.0	2.0	<u>1/</u>
	CRS Integrated Rural Development	1.0	2.0	<u>1/</u>
	AMIDEAST Human Resources Developme	1.1		<u>1/</u>
	ACDI Cooperative Dev. Program	3.0		<u>1/</u>
	SCF Comodity Devt. II & Jobs	4.2		<u>1/</u>
Program Develop. & Supp			3.0	<u>1/</u>
Start-up Costs	IBRD TA & Feasibility Studies Trust Fund	5.0		<u>2/</u>
	IBRD Start-up costs Trust Fund	10.0	31.0	<u>2/</u>
	Palestinian Police Support	9.0		<u>1/</u>
Potential New Activities	Microenterprise Development		5.0	
	PVO Umbrella Project		5.0	
	Gaza Stormwater		3.1	
<b>TOTAL</b>		<b>72.0</b>	<b>75.0</b>	

## Footnotes:

1/ Capabilities Assessed During Audit

2/ USAID Monitoring Assessed

3/ To be assessed by RIG/A/Cairo in a separate audit.