
**SEMIANNUAL
REPORT
OF
THE
INSPECTOR
GENERAL**

As of September 30, 1983

Office of the Inspector General
Agency for International Development
U.S. International Development Cooperation Agency

SEMIANNUAL REPORT
OF THE
INSPECTOR GENERAL
AGENCY FOR INTERNATIONAL DEVELOPMENT

September 30, 1983

EXECUTIVE SUMMARY

IG
Respon-
sibilities

The Inspector General (IG), Agency for International Development (AID), conducts a comprehensive program of audits and investigations relating to AID's programs and operations. The IG also directs and supervises all Agency security activities, including the Agency's personnel and physical security program. In addition, the IG is authorized by statute to provide some or all of these services to the Overseas Private Investment Corporation and the International Development Cooperation Agency.

Reporting
Period

This is the third semiannual report by the IG since being brought under the aegis of the Inspector General Act of 1978 (PL 95-452). This report, covering the period April 1, 1983 through September 30, 1983, describes accomplishments and highlights significant audit, investigative and security activities.

The
Challenge

The worldwide nature of the Agency's programs, which are directed at less developed nations, continues to pose serious management challenges. Nevertheless, progress in meeting these challenges is being made. IG accomplishments during the reporting period are summarized below and discussed in more detail in the body of this report.

IG
Accomplish-
ments

During this reporting period Agency management, in response to IG audit and investigative activities, recovered more than \$2.8 million and deobligated and/or recouped outstanding cash advances amounting to \$7.0 million. Substantial additional amounts questioned have been sustained by Agency management but have not yet been collected (pages 18 and 19).

- IG Audit issued 119 reports. These reports resulted in the strengthening of internal controls, redesigning projects, avoiding costs, recovering money, deobligating funds, and improving the efficiency and effectiveness of Agency operations (pages 10 through 23).
- IG Investigations closed 62 cases, referred several cases to prosecutorial authorities and Agency management which resulted in a number of successful prosecution and administrative sanctions being taken and in making considerable recoveries. The types of cases pending, in part, include embezzlement, bribery, fraud against the government, conflict of interest and procurement violations (pages 24 through 35).
- IG Security has continued to place special emphasis on the physical protection of Agency personnel overseas through provision of specialized security equipment. In addition, the personnel security area has increased its emphasis on the training and orientation of Agency staff in security matters (pages 36 through 39).

Recommen-
dations

The Agency's audit recommendation follow-up system is functioning satisfactorily. The total number of open recommendations decreased over the prior period, along with the number of recommendations open six months or longer. The IG and Agency management continue their efforts to assure proper recommendation closure. Management's follow-up on monetary recommendations has resulted in substantial financial benefits.

Initiatives

The IG Office has become deeply involved in controls, both internal to the office and external. These initiatives include (i) involvement with AID's Internal Control Oversight Committee and implementation of OMB Circular A-123; (ii) implementation of a case-tracking system for investigations that have been referred for action to other AID offices and outside agencies and (iii) completion of the security equipment inventory on a worldwide basis.

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INSPECTOR GENERAL RESPONSIBILITIES, ORGANIZATION,
STAFFING, BUDGET, AND MANAGEMENT INITIATIVES

Responsibilities

The Inspector General (IG) conducts a comprehensive program of audits and investigations relating to the operations of the Agency for International Development (AID). The IG also directs and supervises all AID security activities, including the Agency's personnel and physical security programs. In addition to providing these services for the Agency, the IG is authorized by statute to provide some or all of these services to the Overseas Private Investment Corporation and the International Development Cooperation Agency.

In carrying out his responsibilities, the IG acts as advisor to Agency management in all matters bearing on the efficiency, effectiveness, integrity, and security of Agency programs and operations. Further, he is responsible for coordinating AID's audit, investigative, and security activities with those of other agencies, including the General Accounting Office, the Department of Justice, the Department of State, and the Office of Management and Budget.

The Inspector General's workload encompasses:

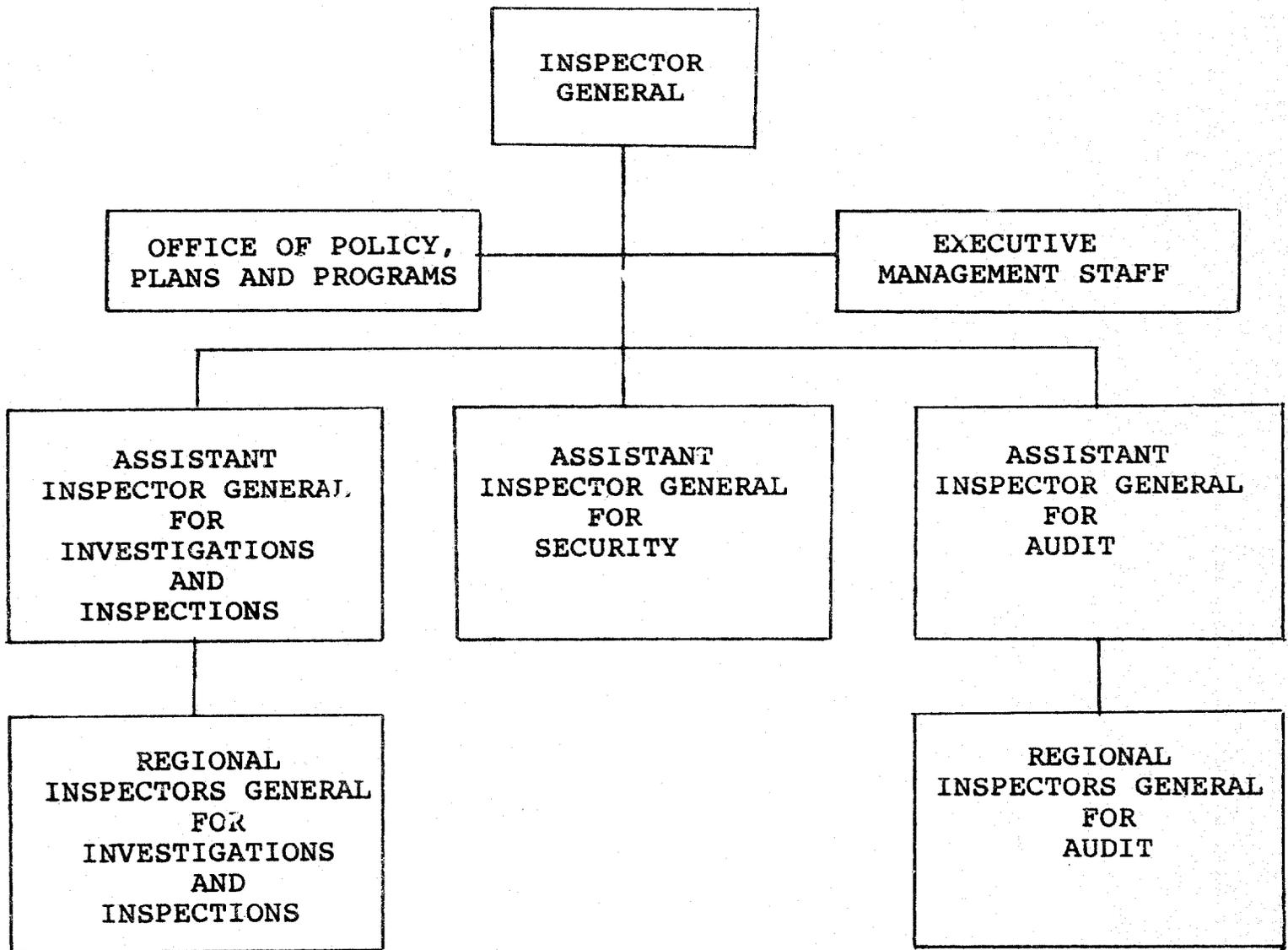
- project assistance programs with obligations of \$12 billion, consisting of approximately 1,900 open projects in 70 countries;
- a portfolio of housing loan guarantees valued at approximately \$1 billion, new guarantees are between \$120 and \$150 million annually;
- P.L. 480 food programs (Titles I, II and III) amounting to \$1.5 billion per year; and
- approximately 5,300 AID employees, including U.S. and foreign national direct-hire staff.

Statutory Reporting Requirements, Inspector General Act

- Section 4(a)(2) - Review of Legislation and Regulations: During the past six months, the Inspector General participated in the review of the proposed amendments to the FY 1984 Foreign Assistance Act as required under the Inspector General Act. Specifically he reviewed the thirty-two proposed changes and commented specifically on four which he believed may have an impact on the economy and efficiency of Agency operations.
- Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies: See pages numbered 11 through 16 and 30 through 33 in this report.
- Section 5(a)(2) - Recommendations with Respect to Significant Problems, Abuses, and Deficiencies: See pages numbered 11 through 16 in this report.
- Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented: See pages numbered 19 through 23 in this report.
- Section 5(a)(4) - Matters Referred to Prosecutive Authorities: See pages 27 and 28 in this report.
- Section 5(a)(5) and 6(b)(2) - Summary of Instances Where Information Was Refused: There were no instances during this reporting period where requested information was refused.
- Section 5(a)(6) - Listing of Audit Reports: See the Appendix to this report.

Organization

As of September 30, 1983, the Office of the Inspector General was organized as follows.



-- The Inspector General (IG): reports directly to the Administrator and advises him and other AID officials on the integrity, efficiency, and effectiveness of Agency operations; recommends Agency action on problem areas; proposes standards for Agency compliance with laws, regulations, and policies; and directs all IG activities.

-- Office of Policy, Plans and Programs (IG/PPP): formulates policy and guidance for all IG offices; coordinates regional audit plans; evaluates IG operations; coordinates IG activities; and maintains liaison with the General Accounting Office.

-- Executive Management Staff (IG/EMS): provides personnel, budget, administrative management, and logistic support for all IG units.

-- Assistant Inspector General for Investigations and Inspections (AIG/II): investigates activities and personnel directly or indirectly financed by AID in relation to improper and/or illegal conduct. In carrying out this function, the AIG/II directs and supervises Regional Inspectors General for Investigations and Inspections (RIG/IIIs), who have responsibility for assigned geographical areas. The current office structure and corresponding geographical responsibilities are as follows.

<u>Office</u>	<u>Geographical Responsibility</u>
RIG/II/Cairo	Egypt
RIG/II/Dakar	West Africa
RIG/II/Karachi	Near East and South Asia
RIG/II/Manila	East Asia
RIG/II/Nairobi	East Africa
RIG/II/Washington	U.S. and Latin America

-- Assistant Inspector General for Security (AIG/SEC): in accordance with law, Executive Orders and regulations, conducts the Agency's programs for physical security, personnel security, and protection of classified documents. The Office of Security, which is located in Washington, D.C., does not maintain regional offices overseas.

-- Assistant Inspector General for Audit (AIG/A): develops and implements comprehensive annual audit plans for activities financed by AID. The programs include surveys; audits of financial integrity, operational efficiency and economy, and program results; and follow-up on audit findings and recommendations. In carrying out this function, the AIG/A directs and supervises Regional Inspectors General for Audit (RIG/As) who have responsibility for assigned geographical areas. The current office structure and corresponding geographical responsibilities are as follows.

Office

Geographical
Responsibility

RIG/A/Cairo	Egypt
RIG/A/Dakar	West Africa
RIG/A/Karachi	Near East and South Asia
RIG/A/Latin America ^{1/}	Latin America and Caribbean
RIG/A/Manila	East Asia
RIG/A/Nairobi	East and North Africa
RIG/A/Washington	United States and Europe

Staffing

The IG's authorized U.S. staffing has increased by two during this period, with a total complement of 107 U.S. auditor and investigator positions. Forty-five members (42 percent) of this staff are stationed overseas.

In August our West Africa Office was moved from Abidjan, Ivory Coast to Dakar, Senegal. This enabled us to expand our staff by 2 U.S. direct-hire auditor positions and 1 third-country-national auditor position.

^{1/} Located in AID/Washington

TABLE 1
IG Staffing Levels Over The Past Eighteen Months

	<u>9/30/82</u>		<u>3/31/83</u>		<u>9/30/</u>
	<u>Posi- tions</u>	<u>Vacan- cies</u>	<u>Posi- tions</u>	<u>Vacan- cies</u>	<u>Posi- tions</u>
<u>Professional Staff</u>					
Office of The Inspector General (U.S.) ^{1/}	2	1	2	1	2
Office of Policy, Plans & Programs (U.S.)	6	1	6	-	8
Executive Management Staff (U.S.)	3	-	3	-	3
Office of Investigations & Inspections					
U.S.	23	2	23	2	23
Foreign National	3	-	3	1	3
Office of Security (U.S.)	13	2	13	2	13
Office of Audit					
U.S.	76	2	76	2	76
Foreign National ^{2/}	<u>10</u>	-	<u>10</u>	-	<u>10</u>
Total Professional Staff (U.S. & Foreign National)	136	8	136	8	138
<u>Support Staff</u>					
U.S.	33.6 ^{3/}	1.8	33.9 ^{3/}	0.8	34.8 ^{3/}
Foreign National	<u>7</u>	<u>2</u>	<u>7</u>	<u>2</u>	<u>8</u>
Total Support Staff (U.S. & Foreign National)	40.6	3.8	40.9	2.8	42.8
<u>International Development Interns</u>					
Total Staff (U.S., Foreign National, & International Development Interns)	<u>177.6</u>	<u>11.8</u>	<u>177.9</u>	<u>10.8</u>	<u>180.8</u>

^{1/} "U.S." means U.S. direct-hire employees, both foreign service and civil service.

^{2/} In addition, the RIG/A/West Africa has been authorized to hire four Foreign National staff through personal service contracts.

^{3/} Includes the full-time equivalent of part-time staff positions.

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Budget

The IG's FY 1983 budget of \$12,572,962 was a reduction of \$378,898 from the FY 1982 budget and \$463,350 less than the FY 1983 budget projected in the March 31, 1983 Semiannual Report. This reduction is a result of a decrease in the amount of security equipment procured and a higher than expected vacancy rate in the professional ranks.

TABLE 2

Inspector General Budget

<u>IG Component Office</u>	<u>FY 1982</u>	<u>FY 1983</u>
Office of Security Operations	\$ 1,161,319	\$ 959,657
Overseas Security Equipment	1,368,400	1,034,700
Subtotal	\$ 2,529,719	\$ 1,994,357
Office of Investigations and Inspections		
Washington	\$ 895,127	\$ 876,610
Overseas Operations	1,093,216	1,287,169
Subtotal	\$ 1,988,343	\$ 2,163,779
Audit Offices		
Washington	\$ 3,620,909	\$ 3,687,315 ^{1/}
Overseas Operations	3,958,109	3,806,310
Subtotal	\$ 7,579,018	\$ 7,493,625
Management Offices		
Inspector General	\$ 141,651	\$ 148,429
Executive Management Staff	270,426	264,696
Policy, Plans and Programs	442,703	508,076
Subtotal	\$ 854,780	\$ 921,201
Total Budgets	<u>\$12,951,860</u>	<u>\$12,572,962</u>

^{1/}Includes the Latin America Operations located in Washington.

Management Initiatives

During the past six months the individual segments of the IG's office have begun new or continued with management initiatives as follows:

- . IG representatives continue to participate in the activities of AID's Internal Control Oversight Committee. This group was established in 1982 to guide and oversee the Agency's implementation of OMB Circular A-123: "Internal Control Systems" and the follow-on Federal Managers' Financial Integrity Act. During the reporting period, the results of "vulnerability assessments" conducted by all AID/Washington and field components were analyzed and recommendations were made for corrective action or further management study. IG audit staff also surveyed AID's implementation of A-123 at selected AID/W and overseas offices. The results of this review will soon be made available to Agency management, together with a compilation of IG audit findings developed during the past three years, in order to assist the Oversight Committee in strengthening compliance in future Agency efforts to implement this Circular. Finally, before the end of 1983, the Inspector General will provide the Administrator with his comments as regards the status of Agency internal controls. In turn, the Administrator will make a similar report to the President, as required annually by the Federal Managers' Financial Integrity Act.
- . The "lessons learned" initiative instituted in 1982 by the Office of Investigations and Inspections is continuing. This effort is being expanded to include a greater diversification of topics and a wider dissemination of the lessons learned. Feedback from mission directors and other operational managers has been encouraging.
- . The implementation of a case-tracking system was begun by the IG/II to track cases referred for action to the Department of Justice, U.S. Attorneys, AID Management, etc. This system through continuous follow-up, will encourage action to be taken more promptly, record the nature of the action taken and identify delinquent action offices.

- . The IG/II Fraud Prevention and Detection Inspections Program is continuing with increased emphasis in those areas identified by project managers, audits and investigations as most vulnerable to fraud and misuse. Two such areas of concentration during this reporting period and which will continue into the next period are host country procurement and contracting.
- . A major revision of the IG/II operational and investigative policies and procedures was also begun during this period. This effort is focused on standardizing work requirements and improving performance.
- . The Inspector General's "Flash Report"--a bimonthly summary of significant audit findings, including a listing of all reports issued during the reporting period--entered its second year of publication. Both the cover and format of the report have been revised to better capture the attention and address the needs of Agency management.

AUDITING

Summary Of Audit Activity

During this semiannual period, the Regional Inspectors General for Audit issued a total of 119 audit reports covering program expenditures of about \$734 million. These reports questioned the validity of \$14.0 million in costs that had been incurred by the Agency, and identified an additional \$2.6 million that should be recovered through deobligations or reductions of outstanding advances. In addition, the Agency collected over \$2.8 million during this period as a result of audits. Overall, the Regional Inspectors General made 275 formal recommendations for corrective action by Agency management.

The following tables summarize the reports by type of audit, issuing office, and program area reviewed.

TABLE 3

Audit Reports Issued From 4/1/83 Through 9/30/83,
By Type Of Audit

Organizational Audits	3
Functional Audits	7
Project Audits	28
Contract Audits	6
Supplementary Work on Financial Audits by Other Government Audit Organizations	31
Preaward Surveys	<u>44</u>
Total	<u>119</u>

TABLE 4

Audit Reports Issued From 4/1/83 Through 9/30/83,
By Issuing Office

Regional Inspector General for Audit/Cairo	7
Regional Inspector General for Audit/Dakar	1
Regional Inspector General for Audit/Karachi	5
Regional Inspector General for Audit/Latin America	9
Regional Inspector General for Audit/Manila	3
Regional Inspector General for Audit/Nairobi	10
Regional Inspector General for Audit/Washington	<u>84</u>
Total	<u>119</u>

TABLE 5

Audit Reports Issued From 4/1/83 Through 9/30/83,
By Program Area Reviewed

Agriculture, Nutrition and Rural Development	21
Population, Planning and Health	11
Education and Human Resources	17
Selected Development Activities	49
Operating Expenses	3
Commodity Import Program	2
P.L. 480	7
International Disaster Assistance	1
Other	8
Total	<u>119</u>

Significant Audit Findings And Recommendations In IG Audit
Reports Issued During The Period April 1 - September 30, 1983

Based on findings contained in issued audit reports, the Inspector General views the following problems as ones that continue to hamper AID's efforts to fulfill its goals and objectives.

- Overly sophisticated project designs when assessed in terms of the recipient countries' capacity to carry them out.
- Ineffective project management and oversight on the part of AID and host governments both stemming, in part, from a lack of assigned personnel and requisite technical skills.
- Absence of, or inattention to, financial and administrative controls.
- Unsatisfactory performance and stewardship over U.S. Government resources by contractors and grantees.
- Deficient contracting practices and, particularly, overreliance on host country procurement personnel and procedures.

The following report digests are from current reports and are representative of ongoing difficulties in AID program implementation. These findings emphasize the recurring nature of the deficiencies, which have been reported in this forum previously.

- Ambitious Project Design Coupled with the Lack of Project Management Resulted in Failure of this \$9.2 Million Project. An ambitious and complex \$9.2 million integrated development project failed as a result of (i) erroneous assumptions concerning host country institutional and management capabilities and (ii) a project paper with insufficient detail on how the project's objectives were to be met.

In addition to the inability of the project to accomplish the planned objectives, the audit determined that the project failed to adequately control and account for \$5,718,000 provided for local currency project support. Examples of improprieties included (i) the revolving credit fund and employee advance repayments were being used to pay operating expenses and (ii) the documentation that was available to support expenditures did not agree with the amounts claimed from AID.

It was also found that the USAID's oversight and management of the project during the initial four years of the project's life were inadequate. Although management improved, the project was in such disarray that the Africa Bureau decided to terminate the project during the audit. (IG Report No. 7-688-83-3)

- Failure to Apply Agency Procedures and to Exercise Effective Oversight Results in Wasted Project Resources. Mismanagement of this West African project caused (i) the cost to escalate from the original estimate of \$6.4 million to \$33 million, (ii) project completion to be delayed two years, and (iii) the construction of the project's 44 buildings to be rated substandard. The management problems of the project were:

-- The AID project manager was an agricultural generalist although the project was a complex construction undertaking.

- The host country had no qualified people to supervise the project and the A&E firm's oversight was ineffective.
- The construction contractor had no experience with the U.S. standards and materials specified for the project.
- AID separated commodity procurement from the construction contract to expedite implementation but failed to coordinate the delivery of commodities with the construction contractor.
- The A&E firm failed to provide accurate bills of materials which exacerbated the procurement problem. This failure resulted in the construction contractor filing time delay claims amounting to \$566,000 and too much material was ordered. Excess cement and framing lumber, estimated to cost \$700,000, was either stolen or misused. (IG Report No. 0-657-83-64)

. Implementation Problems Caused by the Host Country and an Overly Tolerant USAID Increased Costs and Decreased Project Accomplishments. This project, originally designed for a life of five years, had to be redesigned in 1979 after three years of implementation problems. This redesign increased the life of the project by 2 years, increased the cost of the project from approximately \$11 million to \$18.5 million and decreased the expected outputs from 940 kms. of road construction to 341 kms. Still, during 1983, IG auditors found \$1 million worth of underutilized construction equipment, AID-financed spare parts sold for half their value, and a host government disbursing system that took up to two months to process high priority procurement vouchers.

Auditors commented that a follow-on project entitled, "Secondary Roads Development," may suffer from similar difficulties. (IG Report No. 1-521-83-13)

. Host Country Management and the Use of Fixed Amount Reimbursements has Brought the Project to a Virtual Standstill. This \$26.9 million rural education project was designed to provide construction funds for schools and teacher housing, a maintenance capability within the Ministry of Education (MOE), and improved teacher

training. The host government's MOE was poorly equipped to undertake such a large and complicated project under AID's Fixed Amount Reimbursement (FAR) contract mechanism which requires completion of a unit prior to payment. Even after the FAR system was modified to provide an advance of funds of \$2.2 million to provide the host country with operating funds, auditors found only 165 of 977 renovated classroom structures accepted as completed, and of the planned 2,100 new classrooms only 583 were started and only 90 of those accepted as completed. Because AID could not advance additional project funds for partially completed units and because of the coordination, procurement and logistics problems in the MOE, the project had been idle for more than six months. In addition, the project's accounting and internal control system was so poor that the MOE was unable to provide an accounting of the project's resources, including the funds advanced, or its current financial status. (IG Report No. 1-522-83-16)

Lack of Financial and Management Controls on AID Funds Managed by an AID-Financed Host Country Contractor. AID signed a project agreement to provide assistance to a Near East country in the area of agricultural development systems. Pursuant to the agreement, a host country contract was executed between the country and a U.S. university (contractor) to provide technical assistance in such areas as problem identification, project design and implementation.

The audit report concluded that the contractor's performance was marked by non-compliance, inefficiency, unaccountability and abuse of AID resources.

Of the \$12.2 million provided to the contractor, \$5.44 million was under the control of in-country contract staff. There was a serious breakdown in management controls over the contractor's expenditures in the host country resulting in over \$700,000 in U.S. dollars and local currency costs being questioned during the audit. In addition, the local currency equivalent to \$467,000 could not be accounted for due to various faulty accounting practices in connection with the contractor's in-country operations.

The audit pointed out weaknesses in the contractor's management procedures. There were also a number of evaluations as a result of which AID concluded that the contractor's performance was inadequate.

The problems with the contractor, both control and accomplishment, were attributed to a lack of supervision over the local team by the university and the fact that the university and AID never agreed upon the means of achieving the project's objectives. (IG Report No. 6-263-83-8)

- Lack of Controls Over Advances to Contractors Resulted in Excessive Interest Costs to the U.S. Treasury and Misuse of AID Funds. A review was made of AID policies and procedures for making advances to contractors, monitoring the status of advances and actual use of the funds by contractors in a Near East country. The audit report concluded that, in general, advances were excessive and that U.S. Treasury regulations were not being followed. This resulted in excessive interest costs to the U.S. Treasury and also contributed to the misuse of AID funds available to contractors.

It was calculated from the sample taken that the added interest expense to the U.S. Government approximated \$3 million during the period and, when advances were compared to expenditure levels, the contractors were found to have had between 3 to 16 months supply of funds which far exceeded Treasury regulations. (IG Report No. 6-263-83-6)

- Disciplines Normally Associated with Capital Projects Were Ignored by AID Which Contributed to a Project Which May Never Achieve Its Objectives. This report exhibits the pitfalls that the Agency encounters when it departs from normal operating procedures. A \$24.5 million project to build automated bakeries was funded through the Commodity Import Program (CIP). Because it was implemented under the CIP procedures rather than capital project procedures, the Agency did not appoint a project officer nor did it provide the management support needed to prepare the host government for successful installation and start-up of the bakeries. The Agency relied solely on local government project management. This has proven to be unsatisfactory from negotiation of the original contract to preparation of construction sites.

The original plan called for 39 bakeries to be producing bread by June 1981. The auditors found the first bakery was not expected to produce bread until the summer of 1983.

Lack of direct oversight and project management by AID has contributed to excessive project delays by failing to institute or cause corrective action to begin in a timely manner. This delay has increased AID's contribution to the project by at least \$6.4 million. (IG Report No. 0-263-83-51)

Agency Action on Audit Recommendations

-- Overview of Agency Performance. The total number of new recommendations made during this reporting period was 275. This represents an increase of 14 new recommendations over the prior reporting period as reflected below:

Recommendations Made During Six-Month Period

<u>Period Ended</u>	<u>Number of Recommendations</u>
March 31, 1981	401
September 30, 1981	309
March 31, 1982	292
September 30, 1982	442
March 31, 1983	261
September 30, 1983	275

The following table compares the status of open recommendations:

<u>Six-Month Period Ended</u>	<u>Open Less Than Six Months</u>	<u>Open More Than Six Months</u>	<u>Total Open</u>
March 31, 1981	305	169	474
September 30, 1981	258	131	389
March 31, 1982	220	149	369
September 30, 1982	381	101	482
March 31, 1983	230	197	427
September 30, 1983	207	145	352

The total number of open recommendations at the end of the reporting period decreased by 75 from the prior period. The number of recommendations open in excess of six months decreased by 26 percent (197 to 145) from the prior period.

-- Agency Compliance With OMB Circular A-50. The fundamental requirement of OMB Circular A-50 is that audit recommendations be resolved within six months of issuance. (In this context, "resolution" and "closure" are not synonymous terms: audit recommendations are resolved when Agency management and the IG's Office reach agreement on firm plans of action to correct the reported deficiencies. But audit recommendations are generally not closed until corrective actions have been completed.) The number of IG recommendations open over six months decreased by 52 between March 31, 1983 and September 30, 1983. Violations of the A-50 requirement for resolution also decreased from 74 to 58 during this same period.

Status Of Recommendations
Open Over Six Months

<u>As Of</u>	<u>Total</u>	<u>Unresolved, in Violation of Circular A-50</u>	<u>Resolved</u>
September 30, 1981	131	77	54
March 31, 1982	149	76	73
September 30, 1982	101	18	83
March 31, 1983	197	74	123
September 30, 1983	145	58	87

-- Agency Compliance With Public Law 96-304 (Enacted July 8, 1980). The Supplementary Budget and Rescission Act of 1980 required that (i) all audit recommendations open as of the date of its passage be resolved by September 30, 1981, and (ii) all subsequent monetary recommendations be resolved within six months of issuance. As is detailed below, the number of audit recommendations in violation of this statute decreased over the past six months.

Recommendations Unresolved
In Violation Of P.L. 96-304

<u>As Of</u>	<u>Total</u>	<u>Issued Prior</u> <u>To July 8, 1980</u>	<u>Monetary</u>
September 30, 1981	25	11	14
March 31, 1982 (a)	31	14	17
September 30, 1982	13	4	9
March 31, 1983 (b)	36	-0-	36
September 30, 1983	24	-0-	24

(a) Increase due to the reopening of previously closed recommendations.

(b) A portion of increase due to large number of recommendations made in prior period.

-- Follow-up on Closed Recommendations. OMB Circular A-50 mandates that each Agency regularly evaluate its performance in complying with the scope and intent of audit recommendations. Consequently, follow-up on closed audit recommendations has been integrated into the work of each Regional Inspector General for Audit (RIG/A) as a means of evaluating Agency compliance with audit recommendations. In addition, for all recommendations, the IG Policy Office tracks activity before, during and after resolution and closure. On occasion it is determined from information available that recommendations should be reopened. During the past six months, the IG reviewed 53 closed recommendations and reopened three.

-- Referrals to the Deputy Administrator. OMB Circular A-50 also requires that the head of each agency or his designee arbitrate any disagreements between the audit and management functions on the timeliness and/or the nature of the Agency's responses to audit recommendations. No recommendations were referred to the Deputy Administrator for resolution during the past six months.

-- Actions on Monetary Recommendations. In summary, Agency actions on monetary audit findings during this semiannual reporting period encompassed:

- . Agency management reached determinations on \$7,837,753 in recoveries recommended by IG audit reports. Of this total, recommended recoveries of \$5,036,475 were sustained.

- . A total of \$2,836,780 was recovered as a result of IG audit work in this and prior periods.
- . Agency management sustained \$7,016,329 in deobligations and returns/reductions of advances that were recommended by IG auditors. Coincidentally, actual deobligations and returns of advances totaling \$7,016,329 were accomplished.

-- Status Of Significant Findings And Recommendations
Previously Reported:

A. Unresolved As Of September 30, 1983.

- . Agricultural Support Project Suffers from Internal Control Weaknesses: IG Report No. 5-279-83-4. IG auditors questioned or suspended about \$1 of every \$6 in \$2.5 million of costs reimbursed to a Title XII institution under this project located in a Middle Eastern country. The auditors' conclusions were based on lack of proper supporting documentation, inappropriate handling of advances, and the absence of necessary authorization for certain payments. Although progress has been made in settling a number of the questioned items, the cognizant USAID Mission has failed to satisfy audit staff that certain costs it finds acceptable are in fact eligible for reimbursement by AID. Inasmuch as the items at issue have now been adequately identified, their resolution and settlement can probably be anticipated within the next few months.
- . Accountability Over PL 480 Food Commodities Needs to Be Improved: IG Report No. 5-386-82-7. Sixteen of this report's total of 37 recommendations remained open as of 30 September. Significant progress has been achieved in a number of important areas: legal research is underway to determine the collectability of certain large commodity loss claims previously written off by the project sponsor and the cognizant USAID Mission. The American private voluntary agency (PVO) which has managed this very large program over the past three decades has taken a number of corrective actions that have permitted closure of many recommendations. Resolution of audit issues pertinent to several other recommendations also seems well underway. However, further corrective measures and clarifications remain to

be obtained before several remaining recommendations -- some involving potentially large recoveries -- can be addressed. Finally, the IG has notified cognizant AID/W managers that their response to one of the report's major thrusts, viz: upgrading the impact of, and developing phase-over plans for, the program's major feeding components, does not fully address the issues surfaced during audit. He has consequently deferred further consideration of these matters pending completion of another audit report on a second, large PL 480, Title II program in the same country so as to be able to adequately assess overall audit concerns with AID-sponsored food distribution activities there.

Inadequate Controls Over \$110 Million Project: IG Report No. 5-386-81-6. Three recommendations having to do with critical, significant financial aspects of this large, complex and ambitious development activity remained open more than 2-1/2 years after report issuance. During the last six months resolution of the underlying audit issues was brought nearer as a result of high-level meetings between senior AID officials and their equal numbers representing the American and host country project sponsoring organizations. In addition, the project underwent an in-depth, joint AID-host country evaluation whose results are expected to be finalized and incorporated into the project's financial plan before the end of the year. If this can be accomplished to the mutual satisfaction of all parties concerned with the project, then prospects for the eventual closure of the outstanding recommendations appear to be good.

Mode of Implementing School Construction Project Questioned: IG Report No. 2-492-82-12. During the past six months, the IG made strong representations to the Agency's Administrator and other senior managers reaffirming his view that controls over the disbursement of large amounts of ESF resources planned in an East Asian nation were not in accordance with either law or USG regulations. After close review of these arguments, management acceded to the IG's position. As the reporting period drew to a close, negotiations were underway portending resolution of the internal control issue at the AID/Washington level. Yet to be addressed, however, is the matter of determining whether the

application of ESF resources in this case complies with the intent of the Foreign Assistance Act in the sense that they support rather than substitute for the application of the recipient government's own budgetary resources. Because this latter issue was not made the subject of a specific audit recommendation, closure of the report's one remaining recommendation does not depend on its resolution. However, the IG will continue to pursue this concern and to incorporate examination thereof into the next review of this ESF program scheduled to begin in the near future.

- . Problems with Agency Procurement Practices: IG Report No. 81-142. This report identifies weaknesses in AID's procurement practices and although management agrees with some of the findings, they believe that the report does not sufficiently support the recommendation calling for a reevaluation of AID's present procurement policy. The recommendation has been referred to the Assistant to the Administrator for Management for resolution.

- . Potential Cost Overruns of 200 Percent in African Project: IG Report No. 81-112. All but one of the report's 13 recommendations have been closed. The open recommendation concerns indirect costs incurred by a grantee of the sponsoring organization and is open pending a review of the indirect costs by DCAA.

- . Weak Management And Monitoring Hinders Implementation Of This Caribbean Country Project: IG Report No. 1-532-83-6. Although 9 of the report's 14 recommendations have been closed, more work by the USAID remains to be done in collecting misspent monies. This project audit repeated 7 of 9 findings from an earlier audit and reported: use of \$2.8 million for purposes outside the scope of the project including nearly \$1 million for ineligible uses, unsatisfactory accountability for project commodities, and inadequate financial procedures and controls.

B. Resolved But Pending Completion Of Corrective Action As Of September 30, 1983.

- . Controls Over Procurement and Distribution of Commodities Lacking: IG Report No. 2-492-83-5. Serious defects in the bidding procedures, documentation, selection of vendors, receipt, delivery and utilization of goods were discovered during audit of \$2.2 million in procurement transactions under this crop protection project in an East Asian nation. Management follow-up has been effective and has led to the identification of \$88,000 in improper procurement actions. Progress under each of the four remaining open recommendations indicates strong management support for the auditors' findings and augurs well for their closure in the near future.

- . Inadequate Project Monitoring Contributes to Fertilizer Glut: IG Report No. 5-386-83-5. At the time IG audit staff reviewed the utilization of imported chemical fertilizer by a South Asian country, two-thirds of this \$101 million AID loan had been disbursed. However, usage of the commodity had fallen substantially short of anticipated needs with the result that hundreds of thousands of tons of fertilizer had lain in warehouses for nearly two years, subject to deterioration. Three of the report's four recommendations remained outstanding as of 30 September. However, the issues underlying those recommendations appear to have been resolved to the satisfaction not only of the cognizant USAID Mission, but also of the host government. In consequence, closure of these recommendations may be anticipated in the near future.

- . Poor Management by Contractor Results in \$3.5 Million in AID Funds Used to Finance Ineligible Costs: IG Report No. 83-34. One of the report's two recommendations has been closed. In response to the second recommendation, a Bill for Collection in the amount of \$2.6 million has been issued for part of the ineligible costs. The recommendation will be closed when the Office of Financial Management completes the required research and the final Bill for Collection is issued.

- Audit Findings Result in Project Termination: IG Report No. 0-608-82-47. Four of the five recommendations in this report have been closed. The final recommendation, calling for revision of Handbook 11 to include current AID policy on participants under AID financed host country contracts, has not been closed. Cognizant management officials advised the IG on June 30, 1983, that a committee had been formed to draft the Handbook revisions. The recommendation will be closed when they are issued.
- Overly Ambitious Design and Lack of Counterpart Contributions Hinder Project: IG Report No. 1-522-82-13. Only one of this report's 20 recommendations remains open pending receipt of a signed contract that would update a 1978 Demand/Supply Study.
- Proceeds from PL 480 Sales Not Used for Project Purposes: IG Report No. 1-524-81-15. One of this report's 23 recommendations remains open pending transfer of \$1.5 million in local currency equivalents from one fund to another for reprogramming. However, action by the host government needed to close this recommendation has not occurred to date.
- An Integrated Development Project Needs Redesign: IG Report No. 7-688-82-1. An \$18.4 million integrated development project in West Africa was not achieving significant results. The IG recommended that the project be redesigned to make it simpler and more manageable, and that questioned costs be recovered. The project is being redesigned with savings estimated at \$1.5 million. The host country has also begun repayment of the questioned expenditures of \$450,000. Ten of the eighteen recommendations have been closed with action progressing on the remaining five.

INVESTIGATIONS AND INSPECTIONS

The activities of the Inspector General's Office of Investigations and Inspections (IG/II) during this semiannual period were highlighted by the successful prosecution of several significant cases, both domestically and overseas. In addition, administrative action and procedural corrections to improve project implementation were taken by Agency managers in several cases based on IG/II findings. These actions demonstrate the Agency's commitment to fighting fraud, waste, and abuse within its programs and operations. Further, to heighten the awareness of AID managers and operational personnel throughout the Agency to procedural weakness in projects and operations, greater emphasis has been placed on the dissemination of lessons learned which have been derived from investigations and inspections. Also, the high level of coordination and cooperation between the investigative and audit staffs and the AID General Counsel for Law Enforcement and Litigation has continued to improve investigative effectiveness.

To improve capacity to monitor the status of cases which have been referred for action by the IG/II to the Department of Justice, U.S. Attorneys, other agencies and internally within the Agency, a case-tracking system was started during this reporting period. This system, when fully implemented, will provide the current status of cases referred for criminal prosecution, civil action or administrative sanctions. On a monthly basis, referred cases will be followed up to encourage prompt action, ensure accurate and complete data is recorded in case files relative to final action taken, and identify delinquent action offices.

IG/II has continued to focus its investigative resources on those areas of AID operations where substantial funds are concentrated and which are more vulnerable to fraud and misuse. Consequently, a number of cases with no prosecutorial merit, and of limited value in terms of monetary recovery or systemic procedural changes, have been closed. This will permit a greater concentration of investigative resources in those areas most vulnerable to fraud and misuse.

IG/II continues to receive a number of matters of questionable significance; however, because of the nature of these allegations and source of referral, they nevertheless require investigation. A number of limited scope inquiries are

undertaken with the expectation that prosecution, disciplinary action, or monetary recovery are unlikely. The inquiries are considered necessary for maintaining Agency integrity because they affect morale or efficiency, and also because of the deterrent effects such inquiries produce. Such minor matters are routinely being referred to Agency managers for administrative action rather than pursued as in-depth investigations.

Investigative Caseload

The following tables summarize the overall IG/II caseload in terms of the character of cases opened since March 31st and pending as of September 30, 1983, as well as the individual caseloads of Regional Offices for the same period.

TABLE 6

IG/II Caseload

<u>Character of Investigation</u>	<u>No. of Investigations</u>	
	<u>Opened 4/1-9/30/83</u>	<u>Pending On 9/30/83</u>
Bribery	2	4
Conflict of Interest	4	1
Diversion of AID-Financed Commodities	-	1
Embezzlement	1	1
False Official Statement	-	1
Fraud Against the Government	6	6
Improper Use of USG Property	-	1
Inspection Activity	-	1
Obstruction of Justice	1	1
Preliminary Inquiry	3	2
Procurement Matters	7	9
Source/Origin Violation	1	1
Special Inquiry	3	7
Theft of USG Funds	1	1
Theft of USG Property	2	2
Totals	<u>31</u>	<u>39</u>

TABLE 7

IG/II Caseload by Regional Office, 4/1/83 Through 9/30/83

<u>RIG/II</u>	<u>Cases Pending As of 4/1/83</u>	<u>Opened</u>	<u>Closed</u>	<u>Cases Pending As of 9/30/83</u>	<u>IRs*</u>
Washington	21	30	31	20	59
Dakar (Abidjan)**	9	8	6	11	17
Cairo	8	3	4	7	16
Karachi	8	4	11	1	9
Manila	3	5	4	4	6
Nairobi	2	6	6	2	13
Totals	<u>51</u>	<u>56</u>	<u>62</u>	<u>45</u>	<u>120</u>

* Information Reports (IRs) describe preliminary investigative effort to determine the substance or validity of an allegation. A case may or may not be opened as the result of an IR. The IR is also submitted when a review is self-initiated by IG/II in a potentially vulnerable area. The IR procedure provides for greater selectivity in case openings, facilitates documentation and retrieval, and provides a means to credit inspectors for their investigative efforts.

** The IG/II Regional Office formerly located in Abidjan, Ivory Coast, West Africa has been relocated to Dakar, Senegal.

TABLE 8

Summary of IG/II Activity for the Period 4/1/83 Through 9/30/83

Cases Pending as of 4/1/83	47
Cases Opened	<u>31</u>
	78
Less Cases Closed	<u>39</u>
Cases Pending as of 9/30/83	<u>39</u>

Note: Totals in Tables 6 & 8 differ from totals by regional office (Table 7) because several cases required joint investigation.

Summary Of Cases Referred To Prosecutive Authorities

At the start of this semiannual period, a total of eighteen cases were pending with U.S. Attorneys' Offices and with the Department of Justice (DOJ-Criminal and Civil Divisions). Of these, nine were categorized as fraud against the government, two procurement matters, two embezzlements, one forgery, one bribery, and three special inquiries. In content, the cases centered around false claims related to AID-financed contracts and procurement, false statements, kickbacks/bribery, forged signatures on employee time and attendance records, and embezzlement.

With an additional case referred, the Department of Justice and the U.S. Attorney's Offices had a total of nineteen IG/II case referrals under active review. The status of these matters, as of September 30, 1983, was as follows:

- . Two cases are under active investigation by the Antitrust Division, Department of Justice.
- . One case is under Grand Jury Investigation.
- . Twelve cases accepted for referral by the Department of Justice and U.S. Attorney's Offices were being processed for possible criminal or civil action, or were still under review.
- . The Department of Justice and U.S. Attorneys' Offices successfully prosecuted three cases.
- . The Department of Justice declined one case because prosecution was being conducted in the foreign country where the criminal act occurred.

At the end of this reporting period, there were fifteen cases pending with the Department of Justice. The three cases successfully prosecuted are summarized below:

- Child Support Payments Billed to AID. The previous semiannual report mentioned that representatives from IG investigative and audit staffs were working closely with the Agency's General Counsel and the Department of Justice in preparing a case for criminal prosecution. This case was brought to meaningful fruition during this reporting period. The president of a U.S. contracting firm, who in the past has done considerable business with AID, pleaded guilty to one count of making false

statements. The defendant was paid \$400 monthly for twenty-six months (\$10,400) for costs claimed in lodging associates under an AID-financed contract. The investigation disclosed that the \$10,400 in fact had been used for child support payments. A five-year suspended sentence was imposed in this case. The defendant was placed on five-year probation, fined \$10,000, and ordered to make restitution of \$75,400 for unallowable costs billed to AID on contracts over a four-year period.

- AID Controller In Asian Country Pleads Guilty In Smuggling Operation. The Controller for the AID program in an Asian country (American direct-hire employee) was detained by local customs officials for attempting to smuggle dutiable goods with a street value of \$250,000 into the country by using his diplomatic passport. The investigation, jointly conducted by the IG/II staffs of three regional offices and local authorities in four foreign countries and the U.S., disclosed that the defendant had made a number of trips to a particular Asian country where the goods were purchased. The estimated total street value of the smuggled goods was about \$1,000,000. They included watches, video circuits and electronic equipment. For his courier role in the smuggling operation, the AID Controller received about \$70,000. His three Asian accomplices were arrested and action against them is pending in local courts. The AID Controller pleaded guilty to charges of accepting gratuities and income tax evasion. Potential penalties for the two offenses total five years imprisonment and a \$15,000 fine. Sentencing was scheduled for November 1983.

- AID Employee Convicted Of Forging Time Cards. An AID employee, who was also the office timekeeper, was alleged to have forged her supervisor's signature on several time and attendance cards so that leave actually taken would not be charged. During the investigation the employee provided a signed, sworn statement to IG inspectors denying the forgeries. Subsequently, when presented with the results of an analysis of handwriting specimens submitted to the FBI Forensic Laboratory, she admitted forging the time cards. The defendant pleaded guilty in Federal court to the charge of theft of public money, was ordered to make restitution of \$644, resigned from AID and was placed on one year's probation.

Summary Of Cases Referred To General Counsel

As of April 1, 1983, nine cases were pending action by the AID General Counsel. During this six-month period, IG/II referred an additional fifteen cases to that office. The following actions on those cases were taken during the reporting period, and/or their status was as shown below as of September 30, 1983:

- . Two cases involving U.S. direct-hire employees were referred by the General Counsel to the AID Office of Personnel Management. Letters of official reprimand were issued to five employees, and one employee was separated.
- . Although no disciplinary action was recommended against the U.S. direct-hire and foreign national employees involved, in three other cases, referrals were made to the appropriate AID managers for procedural corrections pertaining to monitoring the disbursement of project funds, controlling project funding data, and improving host country procurement.
- . In one case involving alleged kickbacks on an AID-financed contract, one AID foreign national and two host government employees were separated, while one host government employee resigned during the investigation. In another case, a U.S. contract employee was separated for claiming questionable expenses under an AID-financed contract. Reimbursement to AID of the questionable expenses was made by the employer.
- . One case involving questionable claims submitted to AID for reimbursement was referred by the General Counsel to the Inspector General's audit function for resolution.
- . One allegation received through the Hotline of the General Accounting Office relative to the impropriety of the award of an AID Technical Services Contract was determined to be unfounded.
- . The General Counsel determined that no follow-up action was appropriate in seven cases.
- . Action on eight cases is pending.

Employee Cases Referred For Administrative Action

- Contract Work Completed on Government Time by Direct-Hire Employee. A subcontractor for AID was hired as a high-ranking U.S. direct-hire employee. Prior to his employment, he had contracted with AID to draft a technical book. However, at the time he was hired he had not completed this task. Nevertheless, he was encouraged by his AID supervisors to continue work on the book during normal duty hours. He worked on the book for about one and one-half years while employed full-time with AID before it was completed. In addition, he used an AID secretary to type portions of the draft. He had previously been paid over \$50,000 to complete the draft prior to being hired by AID. The case was presented to the U.S. Department of Justice which declined prosecution because the employee completed the draft book during his official duty hours with the knowledge and encouragement of his AID supervisors. His employment with AID was terminated; however, he is currently appealing the decision. Four AID employees involved or who had knowledge of this matter received letters of reprimand.

Highlights Of Other Investigative Findings And Benefits

- U.S. Contractor and Senior Ministry Official Sentenced to Three Years for Bribery. As mentioned in the previous semiannual report, audit and investigative staff in a Near East country referred an allegation concerning a lack of accountability for funds and vehicles in a multi-million dollar AID project to host country officials. Through the joint investigative efforts of host country law enforcement officials and IG/II, a U.S. contractor and three senior host country ministry officials were arrested and charged with bribery. The American contractor, with the assistance of the ministry officials, had obtained AID and host government project funds for personal use.

The contractor was arrested by local authorities on the day before he was to leave the country for the USA. Records were found in the contractor's possession which detailed payments made to the host government officials. The American contractor and one ministry official were found guilty of bribery and sentenced by a host country court to three years' imprisonment. This collaborative effort demonstrates the valuable assistance host country officials often render to the IG's investigative function.

. Violations of Contract Procedures Result in Inflated Costs. A joint audit/investigation of suspected irregularities in commodity procurement by host country officials under an AID project in an Asian country revealed \$122,000 in questionable costs. The joint effort uncovered abuses in AID-funded procurement made under host country contracting procedures. A bid opening held by the host country agency was not attended by an AID representative as required. A number of bids received by the local agency officials were not submitted to the AID Mission for review and some of the bids submitted were incomplete. In addition, no bid evaluation summaries were prepared for submission to the Mission as required. Finally, the successful bidder's eventual contract price turned out to be higher than his bid quotation. He accomplished this by overpricing items, altering equipment specifications and including items not called for in the Invitation for Bid. The records pertaining to the procurement were inadequate and incomplete at both the local agency and at the AID Mission. Based on a legal review of the situation, AID had the right of refund from the host government of about \$88,000 in questionable procurement charges. The matter is still under review by the Mission and could be increased. The host government official responsible for the procurement has resigned.

. Misappropriation of 64 Tons of Donated AID Food. Sixty-four (64) metric tons of non-fat dried milk, valued at about \$60,000, which had been declared unfit for human consumption due to infestation and was to be destroyed by a Private Voluntary Organization (PVO), was alleged to have been sold for animal feed. The food had been at the port for eight months when it was ordered destroyed. An investigation of allegations concerning diversion of the foodstuffs revealed that a local employee of the Private Voluntary Organization, and his assistant who owned a farm, were responsible. The local PVO shipping manager sold part of the milk for animal feed and shipped the balance to his assistant's farm for the same purpose. These diversions were made possible because an American PVO official delegated too much authority to his local employees. In addition, the cognizant AID Mission officer did not adequately supervise the food program. Neither American nor local employees enforced periodic reporting requirements by port, warehouse and transportation personnel. AID Mission officials admitted management oversight was lacking. The PVO's local employees involved were separated and the PVO was placed on notice to account for all condemned food sold under questionable circumstances. Results of the IG investigation were referred to host country for additional follow-up and possible prosecution.

- . Changes In Funds Accountability And Control Procedures. An investigation was conducted in an Asian country into suspected improper expenditures of project funds by host government officials for personal services, local and international transportation costs, overtime work, honoraria payments and local procurement. Additionally, some funds budgeted for salaries were used to purchase project equipment not authorized by the AID Mission. The individuals involved in these improprieties could not be identified nor could it be proven that anyone benefited financially. The Mayor's Office of the city involved refunded the equivalent of about \$8,000 for questionable project expenditures. The investigation disclosed that there was no clear understanding between the AID Mission and local project officials as to procedures or appropriate use and control of project funds. Consequently, an effort was made to see that financial controls were substantially improved and the project was evaluated to assure adequate monitoring of project funds.

- . Contractor Billed AID for Costs Incurred on Non-AID Contract. Discrepancies noted during an audit of contractor billings led to an investigation which disclosed that a contractor employee submitted time and attendance records for working on an AID project overseas when, in fact, he was in the U.S. working on a non-AID contract. He also submitted telephone charges that were found to be unrelated to the AID contract. The employee, in a signed statement, admitted having been out of the country of his employment and in the U.S. during the period for which he submitted time and attendance records to AID. The employee further admitted poor judgment on his part but denied any criminal intent. The employee's company reimbursed AID over \$3,500 for the improper claims and removed the employee from the contract.

- . Mismanagement of Renewable Resources Management Project Leads to AID Losses. An AID-funded contractor, a midwestern university, incurred a loss of over \$22,000 equivalent in host country currency in a renewable resources management project in West Africa. An investigation into the matter disclosed the contractor had also expended over \$162,000 in local currency costs on the project without AID approval as specified in the contract. In addition, the host country failed to meet its local currency contribution of over \$151,000 to the project for training, commodities, personnel, local labor

and certain facilities as required by the project agreement. As a result of the investigation, the contract team's Chief of Party was dismissed, the contract was terminated, the project was cancelled and \$2,651 was recovered. Funds remaining under the project are to be deobligated. The investigation further revealed that the AID Mission had failed in the early stages of the project to adequately monitor the performance of the contractor and the host government's implementing agency. The host government's local currency contribution became delinquent due to inadequate supervision and project monitoring by Mission personnel.

- Human Rights Society's Local Accountant Embezzles AID Funds. AID provided funds to a private voluntary organization (PVO) which, in turn, funded a foreign-based society promoting human rights. The program was designed, in part, to help indigent prisoners by assisting with court costs. Investigation disclosed that the accountant for the society made illegal payments to certain court officials for the release of indigent prisoners. To cover these improper payments, the accountant "padded" other legitimate court costs. All payments were in local currency and amounted to an equivalent of over \$5,000. The administrator of the society, his assistant and the accountant were dismissed and ordered to repay the money. Improved financial controls were instituted, and the AID Mission is now closely monitoring project implementation to avoid any recurrence of the situation.

- African Investigation into Alleged Fraud Continuing. In the last semiannual report, an active investigation involving allegations of inflated invoices, repair of personal vehicles at AID project expense and other irregularities by host government officials in an African country was highlighted. The combined investigative efforts of host government law enforcement officials and an IG/II inspector are continuing. Examinations of financial documents and interviews of witnesses are being conducted. Extensive delays are being experienced with the semiautonomous government agency involved with project implementation. The status of this case will be reported in the next semiannual report.

Special Efforts To Prevent And Detect Fraud, Waste, And Abuse

- Fraud Prevention and Detection Inspection Surveys.
Emphasis has been given to the IG's Fraud Prevention and Detection Inspection Program initiated in July 1982. The IG/II Regional Office located in Manila, Philippines initiated a series of inspection surveys during this reporting period designed to determine the integrity of the commodity procurement functions under a number of projects in the Far East, and whether they warranted full-scale examination. These surveys were targeted at projects with substantial commodity procurement to be carried out under host country procedures. This is an area identified as having high potential for fraud, mismanagement, or abuse. Survey results disclosed several projects requiring close monitoring by both IG/II and overseas Missions. We anticipate favorable results from these surveys in terms of detecting matters warranting investigation and in identifying procedural weaknesses in the project implementation process. This inspection survey initiative will be expanded to other regional offices during the next reporting period.

- Sensitizing AID Contractor Employees to the Potential for Fraud, Waste, And Abuse. Under this program IG/II inspectors contact employees of AID Missions as well as U.S. and foreign contractor personnel to alert them to potential fraud and misuse involving AID funds or commodities. The nature of IG/II responsibilities and interests are made known and employees are advised of their duty to promptly report suspected irregularities in Agency projects and operations to the IG's Office. This is a continuing task in that the employees of the Agency and contractors change frequently. Also, valuable sources of information useful to the investigative function are developed during these contacts.

- Communicating "Lessons Learned" to Agency Management.
One of the more significant IG/II prevention initiatives to date has been the dissemination of "lessons learned" to Agency operational managers. "Lessons learned" focus on procedural weaknesses and vulnerabilities derived from investigations and inspections. They are communicated to managers directly concerned with the results of the investigation and/or inspection and to other managers who might benefit from the facts or circumstances disclosed. During this reporting period nine "lessons learned" write-ups were sent to operational managers for their information and action along with the reports of investigation.

-- IG's Hotline and Post Office Box. No significant investigations, in terms of convictions or recoveries, resulted from complaints received through the IG's Hotline or Post Office Box during this reporting period. An anonymous citizen furnished information alleging that a senior official of the U.S. Department of Education (DOE) had obtained an AID contract for a private U.S. firm, of which the DOE official was president. Investigation revealed that the DOE official's stock in the firm had been sold and he had resigned from the firm prior to being employed with the DOE.

These opportunities for reporting allegations of wrongdoing within the Agency remain available and receive continuous mention in the AID news publication, "Front Lines," and by the IG staff in their daily business dealings with others.

SECURITY

In addition to duties assigned to all Inspectors General, the Inspector General for AID supervises, directs and controls all security activities relating to the Agency's programs and operations.

Accordingly, the IG's Office of Security (IG/SEC) conducts AID's programs of physical security, personnel security, and protection of classified documents. During this semiannual period, the Office of Security has continued to emphasize the expeditious completion of security clearances, provision of physical protection of AID employees, dependents, facilities, and classified material overseas, and implementation of the worldwide automated security equipment inventory system.

Physical Security Division

Overseas Security

Lebanon, Chad, Sri Lanka, Pakistan, Upper Volta, El Salvador, Guatemala and Honduras represent a litany of only the more obviously troubled and dangerous countries in which AID personnel are stationed. The coup in Upper Volta and the communal strife in Sri Lanka are particularly relevant, as they highlight the inherent instability of many of the Third World countries where AID works. They emphasize the need to provide enhanced security to all USAID facilities, even those in supposedly safe countries. In addition, events in the Middle East and Central America have increased the threat of potential terrorist actions against the American presence in those regions.

To ensure the requisite level of security protection is provided, the Division's regional operations officers visited eight posts in Africa and Latin America. In their inspection reports the officers developed recommendations for comprehensive public access controls and safehavens, in addition to addressing problems of residential security. They developed specification for, and coordinated the letting of, contracts for highly specialized ballistic security equipment worth over \$200,000. Most of the equipment is expected to be in the field within the next six months.

Inherent in any security program at overseas Missions must be the ability of AID personnel to communicate with each other or with the Embassy in the event of an emergency. Since most countries in which AID personnel are stationed have only fair to nonexistent telephone systems, IG/SEC's voice radio communications program has continued to be an extremely important part of our endeavors. A total of 1,639 radios are now in the field to service 2,300 direct-hire personnel and AID-supported contractors. The radio system for Bangkok has just been upgraded with state-of-the-art equipment to make the USAID's network compatible with the Embassy's. Major new systems are also being projected for India, Indonesia, and possibly Egypt. Replacement cycling of units currently in the field is also being planned. In addition to providing new equipment to supplement or upgrade USAID networks, IG/SEC also provides a repair service for equipment which fails to function. During the period three hundred forty-four units were repaired or renovated and returned to the field.

The automated inventory of security equipment maintained in the IG/SEC warehouse or shipped to the AID Missions overseas has now been fully loaded into the IG's WANG Office Information System. Mission inventories are now being reviewed for accuracy prior to being sent to the field for verification. The inventory, even in its unverified state, proved most useful in preparing the FY-84/85 budget.

In a continuing effort to better serve our personnel abroad, an effort will be made to orient AID's Unit Security Officers located at AID Missions. To this end, a contract has been let to a former Associate Director of Security with the Department of State to develop a Unit Security Officer (USO) handbook specifically tailored to AID's needs. The handbook should be available in the field sometime next year.

Domestic Security

In addition to the development of a USO Handbook for overseas, the Domestic Security Officer has drafted a similar handbook for use by USO's here in Washington. Once published, this handbook should be extremely beneficial to the 102 Unit Security Officers in AID/W.

To relieve the burden on the Domestic Security Officer, IG/SEC is presently seeking to contract with a local firm to handle all safe and lock installations and maintenance. The firm currently performs the same function for the State Department.

In the last six months, the Domestic Security Officer has processed 57 security violations attributed to personnel in AID/W.

Personnel Security Division

During the period the Personnel Security Division experienced an increase in investigations, drafted various regulations, updated files, and participated in special projects for the President's Council on Integrity and Efficiency.

- The security clearance workload showed a significant increase over that of Fiscal Year 1982. The number of full-field investigations completed in Fiscal Year 1983 increased by 53 percent and the number of National Agency Checks and Inquiries increased by 23 percent.
- The Division assumed responsibility for the orientation program for new-hire employees and for the clerical orientation program. The new-hire program includes special emphasis on Executive Order 12356, regarding classification of documents, which is introduced through an audio-visual presentation. Over 500 people participated in this program during the period.
- The Division personnel coordinated with State Department, OPIC, and the AID General Counsel in the drafting of AID/OPIC regulations concerning National Security Decision Directive 84, Safeguarding National Security Information, for inclusion in the Foreign Affairs Manual. Input was also made to the final revision of the Uniform Security Regulations.
- Chapters 1 and 2 of Handbook 6 were rewritten to incorporate changes in the processing of Participating Agency Service Agreements (PASA). The revision is scheduled for distribution in the immediate future.
- The file review program which began during the preceding period has been completed. A total of 6,733 individual files were reviewed, resulting in the destruction of 57 linear feet of duplicate or outdated material and the retiring of 1,147 files to the Federal Records Center in Suitland, Maryland. The contractor in charge of this review provided a written report identifying those files which needed to be updated or retired. This information will result in a further reduction of files. This is the first time that IG/SEC has conducted a systematic review of files.

- An IG/SEC employee was given training by the FBI in taking fingerprints. This increases IG/SEC capability to handle the number of contractors who need to be fingerprinted. IG/SEC also fingerprints those employees whose security clearances are scheduled. The fingerprinting is tied into the issuance of a new ID card, thereby avoiding a second visit by each employee.

- IG/SEC performed a special service for the President's Task Force on Private Enterprise by arranging to photograph and issue ID cards to the members prior to their meeting at the Watergate office building. This required close coordination to avoid any interruption in the schedule established for this high-level meeting.

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<u>CAIRO</u>			
6-263-83-3	4/28/83	Egypt	A Report on USAID/Egypt's Agriculture Cooperative Marketing Project No. 263-0095
6-263-83-4	5/31/83	Egypt	A Report on USAID/Egypt's Operating Expenses
6-263-83-5	7/14/83	Egypt	The First Seven Years of USAID/Egypt's Assistance to Strengthening Rural Health Delivery
6-263-83-6	7/28/83	Egypt	USAID/Egypt's Provision of Cash Advances to Contractors
6-263-83-7	8/24/83	Egypt	Financial Review of Daniel, Mann, Johnson and Mendenhall - Urban Health Delivery Systems
6-263-83-8	8/29/83	Egypt	A Breakdown of Management Controls by a Host Country Contractor for the AID-Financed Agricultural Development Systems Project
6-263-83-9	9/29/83	Egypt	Memorandum Report on Payment of Customs Duties on Locally Procured Project Equipment in Egypt
<u>DAKAR</u>			
7-688-83-3	5/03/83	Mali	The Operation Mills Mopti Project in Mali was Poorly Designed and Implemented
<u>KARACHI</u>			
5-388-83-6	4/27/83	Bangladesh	Center for Policy Research (CPR) in Dhaka, Bangladesh
5-386-83-7	5/03/83	India	Accounting System Preaward Survey of Two Voluntary Organizations for Health (PVOH)
5-367-83-8	7/26/83	Nepal	Audit Report on the Resource Conservation and Utilization Project in Nepal
5-386-83-9	8/18/83	India	Memorandum Audit Report on Preaward Survey of Proposed PL 480 Title II Commodity Assistance for Drought Relief through Church World Service
5-386-83-10	8/23/83	India	OFDA Grant to CRS for Orissa Flood Relief
<u>LATIN AMERICA</u>			
1-519-83-8	4/20/83	El Salvador	Private Sector Support Program
1-521-83-9	4/29/83	Haiti	PL 480, Title II Food Programs - Three PVOs: CARE, CWS, SAWS
1-521-83-10	4/29/83	Haiti	PL 480, Title II Food Program - CRS
1-517-83-11	5/31/83	Dominican Republic	PL 480, Title II Program - Three Private Voluntary Organizations
1-596-83-12	6/13/83	Various	Regional Rural Agribusiness Development Project No. 596-0069, Loan Agreement No. 596-T-016
1-521-83-13	8/25/83	Haiti	Agricultural Feeder Roads Project No. 521-0074
1-521-83-14	8/26/83	Haiti	Road Maintenance II Project No. 521-0084
1-522-83-15	9/9/83	Honduras	Municipal Development Bank
1-522-83-16	9/23/83	Honduras	Rural Primary Education Program

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<u>MANILA</u>			
2-497-83-7	7/29/83	Indonesia	Audit Report on PL 480 Title II Program in Indonesia
2-492-83-8	7/29/83	Philippines	Audit Report on PL 480 Title II Program in the Philippines
2-493-83-9	9/15/83	Thailand	Hill Area Education Project
<u>NAIROBI</u>			
3-615-83-14	4/14/83	Kenya	Kenya's Commodity Import Program Needs Management Attention
3-633-83-15	4/19/83	Botswana	Although Generally Well Managed USAID/Botswana Support Operations Could Be Improved
3-608-83-16	4/25/83	Morocco	USAID/Morocco's Agronomic Institute Project is a Major Factor in Morocco's Development of Its Agriculture Potential
3-660-83-17	5/19/83	Zaire	Project North Shaba Aids in Increasing Agriculture Production and Sales But More Can Be Accomplished
3-615-83-18	6/09/83	Kenya	Memorandum Audit Report on USAID/Kenya's On-Farm Grain Storage Project
3-632-83-19	6/24/83	Lesotho	USAID/Lesotho's Farming Systems Research Project Needs to be Extended to Reach Objectives
3-662-83-20	7/26/83	Seychelles	Increased Government of Seychelles Support for Agricultural Development is Needed to Maximize Achievements from the Food Crops Research Project
3-608-83-21	8/25/83	Morocco	The PL 480 Title II Program in Morocco Should Be Phased-Out
3-613-83-22	9/15/83	Zimbabwe	USAID/Zimbabwe's Project Monitoring Could Be Improved Through Better Government of Zimbabwe Reporting
3-696-83-23	9/23/83	Rwanda	Insufficient Staffing Has Limited the Progress and Institution Building of Rwanda's Food Storage and Marketing and Local Crop Storage Projects

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<u>WASHINGTON</u>		
0-000-83-55	4/01/83	Audit of Subcontracts Between Northwestern University and the Southern Research Institute
0-000-83-56	4/01/83	Review of Cost Proposal Submitted by A.T. International (ATI)
0-000-83-57	4/04/83	Review of Cost Proposal Submitted by the Population Council

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<u>WASHINGTON</u> (Cont'd)		
0-000-83-58	4/07/83	A.T. International Grants Need: Better Management by AID and Implementation by the Grantee
0-688-83-59	4/20/83	Management of USAID/Mali Operating Expenses
0-000-83-60	4/22/83	Michigan State University
0-000-83-61	4/25/83	Contract Audit of Michigan State University
0-000-83-62	5/05/83	Grant Audit of the Meharry Medical College
0-000-83-63	5/12/83	World Vision Relief Organization
0-000-83-64	5/13/83	Audit of the Guinea Agriculture Production Capacity and Training Project
0-000-83-65	5/27/83	Review of Cost Proposal Submitted by Management Sciences for Health (MSH)
0-000-83-66	5/27/83	Savings in Bank Charges Possible If AID Enforces Its Payment Procedures
0-000-83-67	6/14/83	Contract Audit of the Harvard Medical School
0-000-83-68	6/14/83	Review of Overhead Rate Proposal Submitted by Cooperative Housing Foundation (CHF)
0-000-83-69	6/17/83	National Planning Association
0-000-83-70	6/20/83	High Scope Educational Research Foundation
0-000-83-71	6/20/83	Grant Audit of the Int'l Fertilizer Development Center
0-000-83-72	6/20/83	Contract Audit of University of Wisconsin-Madison
0-000-83-73	6/20/83	Memorandum Report on Year-End Spending
0-000-83-74	6/30/83	Contract Audit of Creative Associates
0-000-83-75	7/01/83	Contract Audit of National Planning Association
0-000-83-76	7/11/83	Grant Audit of Int'l Institute of Rural Reconstruction
0-000-83-77	7/13/83	Review of World Education, Incorporated
0-000-83-78	7/13/83	Development Associates, Inc.
0-000-83-79	7/14/83	International Agricultural Development Service
0-000-83-80	7/14/83	Contract Audit of Lawrence Johnson and Associates, Inc.
0-000-83-81	7/18/83	International Fertility Research Program
0-000-83-82	7/18/83	Review of Cost Proposal Submitted by the Consulting Group, Inc.
0-000-83-83	7/19/83	Review of Termination Costs Claimed by Susan Davis and Associates
0-000-83-84	7/19/83	Devres, Inc.
0-000-83-85	7/20/83	Center for Law and Social Policy
0-000-83-86	7/25/83	Review of IQC Proposal Submitted by the United States League of Savings Institutions and the Institute of Financial Education (USLSI/IFE), A Joint Venture
0-000-83-87	7/25/83	Resources for the Future, Inc.
0-000-83-88	7/26/83	Cooperative Agreement Audit of Resources for the Future, Inc.
0-000-83-89	7/26/83	Review of Cost Proposal Submitted by Int'l Technology Investment, Ltd.

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0-000-83-90	7/26/83	Review of IQC Proposal Submitted by Comprehensive Marketing Systems, Inc.
0-000-83-91	7/26/83	Grant Audit of Urban Institute
0-000-83-92	7/26/83	Contract Audit of Price, Williams and Associates, Inc.
0-000-83-93	7/26/83	Review of Cost Proposal Submitted by Technical Support Services, Inc. and Advanced Technology, Inc.
0-000-83-94	7/26/83	Review of IQC Proposal Submitted by Abeles, Schwartz, Haeckel and Silverblatt, Inc.
0-000-83-95	7/27/83	Review of IQC Proposal Submitted by Research Triangle Institute
0-000-83-96	8/01/83	Contract Audit of MidAmerica Int'l Agricultural Consortium and the University of Nebraska
0-000-83-97	8/01/83	Grant Audit of the Experiment in International Living
0-000-83-98	8/03/83	Review of IQC Proposal Submitted by Resources Applications, Inc.
0-000-83-99	8/11/83	Contract Audit of the University of North Carolina
0-000-83-100	8/11/83	Review of IQC Proposal Submitted by Rivikin Associates, Inc.
0-000-83-101	8/11/83	Contract Audit of A.L. Nellum and Associates, Inc.
0-000-83-102	8/15/83	Review of IQC Cost Proposal Submitted by Booze-Allen and Hamilton, Inc.
0-000-83-103	8/15/83	Review of Cost Proposal Submitted by Hagler, Bailly and Co., Inc. and Reliance Energy Services, Inc.
0-000-83-104	8/15/83	Review of IQC Proposal Submitted by Ferguson Bryan
0-000-83-105	8/15/83	Contract Audit of Metametrics, Inc.
0-000-83-106	8/16/83	Contract Audit of the International Center for Research on Women
0-000-83-107	8/16/83	Review of an IQC Cost Proposal Submitted by Management Analysis Center, Inc. and First Washington Associates, Ltd.
0-000-83-108	8/16/83	Review of IQC Proposal Submitted by Resources for Action/Recursos en Accion, Inc.
0-000-83-109	8/18/83	Review of IQC Proposal Submitted by Action Program International
0-000-83-110	8/23/83	Review of IQC Proposal Submitted by Energy/Development Int'l, Inc., Stone and Webster Engineering and Xenergy
0-000-83-111	8/25/83	Contract Audit of Roy Littlejohn Associates, Inc.
0-000-83-112	8/29/83	Review of IQC Proposal Submitted by the Urban Institute and Robert R. Nathan Associates, Inc.
0-000-83-113	9/02/83	Review of IQC Proposal Submitted by Creative Associates, Inc.
0-000-83-114	9/06/83	Review of IQC Proposal Submitted by the Academy for Educational Development
0-000-83-115	9/07/83	Review of IQC Proposal Submitted by Meridian Corporation
0-000-83-116	9/09/83	Review of an IQC Cost Proposal Submitted by Development Associates, Inc.
0-000-83-117	9/09/83	Review of IQC Proposal Submitted by the Pragma Corporation
0-000-83-118	9/09/83	Review of Cost Proposal Submitted by Sequoia Institute

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0-000-83-119	9/09/83	Review of Award of Cooperative Agreement to Simon Bolivar Foundation, Inc.
0-000-83-120	9/12/83	Review of Cost Proposal Submitted by Laventhol and Horwath
0-000-83-121	9/12/83	Review of IQC Cost Proposal Submitted by Coopers and Lybrand
0-000-83-122	9/14/83	Review of an IQC Cost Proposal Submitted by Arthur D. Little, Inc.
0-000-83-123	9/14/83	Review of IQC Proposal Submitted by Keen, Monk & Associates, Inc.
0-000-83-124	9/14/83	Review of an IQC Cost Proposal Submitted by Coopers and Lybrand
0-000-83-125	9/14/83	Review of IQC Cost Proposal Submitted by Price Waterhouse and Energy/Development Int'l
0-000-83-126	9/15/83	Debt Collection Efforts: Administrative Accounts Receivable
0-000-83-127	9/15/83	Review of Cost Proposal Submitted by A.T. International (ATI)
0-000-83-128	9/15/83	Review of IQC Cost Proposal Submitted by Arthur Young and Company in Response to RFP-OTR-3064
0-000-83-129	9/15/83	Audit of Host Country Contract Between the Government of Liberia and Prairie View A&M University
0-000-83-130	9/16/83	Review of IQC Proposal Submitted by Elliot Berg Associates, Inc. and Action Programs International, A Joint Venture
0-000-83-131	9/21/83	Review of an IQC Proposal Submitted by Multinational Agribusiness Systems Incorporated (MASI)
0-000-83-132	9/23/83	Review of IQC Proposal Submitted by Robert R. Nathan Associates, Inc., the Urban Institute and Brimmer & Company, Inc.
0-000-83-133	9/26/83	Review of IQC Proposal Submitted by Devres, Inc. and Juarez and Associates, Inc. (A Joint Venture)
0-000-83-134	9/27/83	Review of Cost Proposal Submitted by E.A. Jaenke and Associates
0-000-83-135	9/27/83	Grant Audit of World Wildlife Fund, Incorporated
0-000-83-136	9/27/83	Grant Audit of American Association for the Advancement of Science
0-000-83-137	9/28/83	Contract Audit of Data Use and Access Laboratories and Delta Systems Consultants, Inc.
0-000-83-138	9/28/83	Contract/Grant Audit of Colorado State University