PD-ABJ-758

QUARTERLY REPORT
TO THE
DEPUTY ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT

STATUS OF AUDIT FOLLOW-UP AND MANAGEMENT CONTROLS

FOR THE QUARTER ENDING

DECEMBER 31, 1992

Management Control Staff
Directorate for Finance and Administration

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
QUARTERLY REPORT TO THE DEPUTY ADMINISTRATOR
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This is the first FY 1993 Quarterly Report to the Deputy Administrator on the status of audit follow-up and management controls. Included in this report are summaries of IG and GAO audit reports, audit follow-up activity of regional bureaus, and management control information.

INSPECTOR GENERAL AUDIT REPORTS

The Office of Inspector General (IG) issued 104 audit reports this quarter, consisting of 21 performance audits and 83 financial audits. Of the total audit reports issued, 32 had no recommendations and 72 had a total of 214 recommendations.

This section of the Quarterly Report summarizes audits performed during the quarter which had common themes or similar objectives.

AUDITS OF GRANTS AND COOPERATIVE AGREEMENTS

The IG audited the system of internal controls for managing grants awarded to nonprofit organizations in **Costa Rica** because (1) the IG has frequently found problems with these

systems at other missions and (2) grants comprise a large part of the USAID/Costa Rica portfolio (valued at $44.6 million). The five recommendations made by the IG are that the Mission:

(1) amend mission orders to designate the official and office responsible for reviewing and awarding such grants and, issue mission orders which cover internal control procedures for preaward evaluations of grantees;

(2)implement guidelines requiring project officers to prepare and distribute site reports;

(3) establish a system for monitoring, verifying, and documenting cost-sharing contributions and reporting of contributions;

(4) establish internal controls to ensure that grantees comply with the reporting requirements in Handbook 13; and

(5) strengthen closeout procedures for grants and cooperative agreements.

The IG also recommended that USAID/Costa Rica report the conditions resulting in recommendation numbers 3 and 4 above as weaknesses in the FY 1993 Internal Control Assessment if they are not fully resolved. The Mission has agreed with the recommendations. Four of the recommendations have closed and the fifth resolved.

USAID/Philippines had 91 active grant and cooperative agreements with Private Voluntary Organizations (PVOs) and 47 grants awaiting closeout, amounting to $46.1 million in obligations as of September 30, 1991. An IG audit resulted in 10 recommendations on the USAID/Philippines' controls over grants and cooperative agreements. Among them were:

(1) establishing procedures to ensure that PVO project proposals are properly reviewed and PVO eligibility status is maintained in USAID's registries;

(2) ensuring that negotiated costs are reasonable and documented;

(3) assuring that adequate and proper monitoring of implementation plans is executed, including site visits and the review of progress reports;

(4) assuring that the handling of advances adheres to A.I.D. cash management guidelines;

(5) ensuring that recipients deposit A.I.D. funds into interest-bearing accounts, and that the interest is remitted to A.I.D. at least quarterly; and

(6) improving the closeout process for grants and cooperative agreements.

The IG audited selected systems at the Office of the **USAID Representative to Argentina and Uruguay**. The audited programs were valued at approximately $4 million and consisted primarily of grants to nongovernmental institutions. The IG recommended that:

(1) written policies and procedures need to be established to cover the awarding of grants to recipients, to properly account for cost-sharing contributions from recipients, and to properly close out grants;

(2) advances need to be restricted to the immediate needs of recipients and that interest earnings should be given to A.I.D.;

(3) the use of quantitative indicators and documenting of site visits would improve the monitoring of projects; and

(4) funds need to be budgeted in each agreement specifically for auditing.

AUDITS OF DIRECT A.I.D. CONTRACTING FOR TECHNICAL ASSISTANCE

USAID/Philippines uses technical assistance contractors to provide support for many of its projects. Sixty active direct A.I.D. contracts for technical assistance were administered by the USAID as of June 30, 1991, with obligations of $48 million. The audit made 14 recommendations for improving the technical assistance contract procedures, including:

(1) more clearly defining the contract objectives in work statements and requiring performance indicators, site visits and reporting to improve monitoring;

(2) establishing appropriate indirect cost rates and documenting the reasonableness of negotiated costs;

(3) improving the assessment and documenting of contractors' qualifications and responsibilities;

(4) assuring adequate control of non-expendable property;

(5) properly approving voucher payments; and

(6) properly closing out contracts.

The audit report also recommended that the Mission determine whether the internal control weaknesses included in the audit report should be included in its FY 1993 Internal Control Assessment.

USAID/Tunisia relies extensively on A.I.D. direct contracts for technical assistance to implement its projects. From January 1990 through December 1991, **USAID/Tunisia and the Regional Contracting Office (RCO) in Morocco** administered 41 active direct contracts for technical assistance under eight projects, totalling $11.9 million in commitments. In its audit report, the IG recommended that USAID/Tunisia: (1) establish a comprehensive written policy on benefits payable under each type of personal services contract (PSC); (2) decommit or liquidate $918,444 of expired buy-in contracts; (3) establish procedures to ensure that contractors implement a system for receipt, use, maintenance, and safeguarding of non-expendable property; and (4) address the internal control weaknesses identified in the audit report in the Mission's next vulnerability assessment under the Federal Managers' Integrity Act.

The two recommendations to the RCO/Morocco were: (1) to coordinate with and ensure that the A.I.D. Office of Procurement establish final overhead rates for contracts in a timely manner and (2) to forward contract documents to the USAID/Tunisia Controller's Office to ensure availability of funds and inclusion of proper payment provisions prior to awarding a contract.

The Mission disagreed with an issue concerning the allowability and appropriateness of benefits payable to PSCs. The Mission also stated that its internal control assessment should not be a part of the audit process since the four audit objectives do not mention internal controls. The RCO/Morocco claimed, in reference to the first recommendation to the RCO, that it has an adequate mechanism for determining final overhead rates for contracts. The IG, after considering the Mission's and RCO's responses, maintained its position on the validity of all recommendations.

A.I.D.'S CERTIFICATION PROCESS FOR UNLIQUIDATED OBLIGATIONS (SECTION 1311 REVIEW) NEEDS IMPROVING

In our previous Quarterly Report we noted that there were five overseas missions in which the Section 1311 Review process had been audited. Completed audit reports were submitted on three of the five during this quarter - Philippines, Bangladesh, and Togo. **Bangladesh** had $129 million of unliquidated obligations as of March 31, 1992, a reduction of $24

million from September 30, 1991. For the same period, **USAID/Philippines** reduced its unliquidated obligations from $732 million to $583 million. The IG concluded that, for the items tested, both missions generally reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and with A.I.D. policies and procedures.

However, **OAR/Togo and** the West Africa Accounting Center **(WAAC)** branch of the Regional Economic Development Services Office for West and Central Africa [**(REDSO/WCA)** - the official accounting station for OAR/Togo] did not appropriately review and certify its unliquidated balances ($23.3 million as of June 25, 1992). Recommendations included (1) reviewing and deobligating about $1 million, (2) establishing written procedures for the Section 1311 Review process, (3) noting this lack of written procedures as a deficiency in its FMFIA reporting, (4) liquidating $7.9 million under one specific project and (5) limiting forward funding to prescribed levels. REDSO/WCA and OAR/Togo generally agreed with the IG's findings but not all of its conclusions, which form the basis for recommendations. Management also noted the progress that it had recently made regarding the Section 1311 Review process, and stated that lack of staffing in WAAC was the primary reason for not properly reviewing obligations.

AUDITS OF COMMODITIES SYSTEMS AND MANAGEMENT

An audit of **USAID/Kenya's** management of commodities was conducted by the IG after internal control weaknesses were disclosed by the audit of USAID/Kenya's Commodity Import Program, i.e. failure to plan for, account for and manage AID-financed commodities, and not assigning high priority to commodity management. Due to these deficiencies, the IG concluded that no reasonable assurance of the value of the commodities under technical assistance contracts could be determined.

The IG recommended that USAID/Kenya: (1) improve advance planning for commodity procurement; (2) ensure that contractors and grantees establish and implement a monitoring system for commodities, and (3) report these problems as material weaknesses in the FY 1993 FMFIA cycle, if not corrected.

The Mission generally agreed with the findings, but took exception to the recommendations requiring grantees and contractors to submit current commodity listings and to reconcile these listings with its accounting records. USAID/Kenya felt that this put an unnecessary requirement on the grantees and contractors, and a burden on the Mission, when time could be more productively spent on monitoring. The IG countered that such requirements comply with A.I.D. policies and procedures and the recommended reconciliations will facilitate the Mission's monitoring the receipt, storage, use and disposal of AID-financed commodities.

As of March 1992, **USAID/Guatemala** had 29 active projects, plus an additional 11 projects completed in the past two years, with a combined total of $65 million obligated for project commodities. Given the relative importance placed on purchasing commodities, the IG recommended that senior management assume greater responsibility for control over project commodity planning and oversight.

The IG also recommended that USAID/Guatemala issue guidance (1) on minimum commodity controls for each type of commodity and (2) to recipients on an overall commodity utilization plan. Price analyses documentation by the Contracts Office is an example of the type of control that the IG recommended is necessary. The final proposal was that residual materials from specific predecessor projects be transferred to two related projects.

Management generally agreed with the report findings and recommendations. However, for one part of a recommendation it developed an alternative action that achieved the same purpose. It was accepted by the IG.

CHANGE OF AUDIT REPORT PREFIX

Agency personnel should note that the IG has changed the abbreviation which identifies a Letter of Transmittal (audit) Report. The **Letter of Transmittal Report** is a letter by which the IG transmits to A.I.D. management the results of audits performed by independent audit firms on non-profit organizations. The **prefix** of Letters of Transmittal Reports has been changed **from "LTR" to the suffix "R"** for FY 1993, i.e. LTR-93-001 will be shown as "0-000-93-001-R". This type of audit is also referred to as a "Recipient-Contracted Audit".

GAO AUDIT REPORTS

The GAO issued seven audit reports concerning A.I.D. activities this period. Each audit report is summarized below.

Foreign Assistance: Cost Reductions Possible from Improved Cash Transfer Management

The purpose of A.I.D. cash transfers is to provide balance of payments and budgetary support assistance on a cash basis to recipient governments in furtherance of U.S.

national security, and economic and developmental objectives. The GAO reported that A.I.D. disburses funds under cash transfer agreements according to political and procedural criteria, rather than following good cash management principles of releasing funds on an as-needed basis (to minimize the cost of borrowing). A.I.D. transfers cash as soon as conditions precedent have been met in order to encourage recipient governments to meet certain political and economic reforms.

The GAO proposed two lower cost options: (1) make direct debt payments or reimbursements to recipient governments, or (2) collect and return to the U.S. Treasury the interest earned by recipient governments resulting from the deposit of funds in interest-bearing accounts. While A.I.D. officials noted that its current practice is not inconsistent with law or regulations governing cash transfer programs, the Agency indicated that, when politically and cost-beneficial, it would prefer interest earnings to be paid directly to the U.S. Treasury. The report includes three recommendations with which the Agency generally agrees, including issuance of a policy statement setting forth precepts for cash transfer disbursement mechanisms.

Foreign Disaster Assistance: A.I.D. Has Been Responsive but Improvement Can Be Made

The Office of Foreign Disaster Assistance (OFDA), as the leading U.S. disaster response agency for foreign emergencies, has generally been responsive to short-term (earthquakes, floods, etc.) and slow on-set (long-term) disasters. OFDA's ability to collaborate and cooperate with other international and private voluntary groups is helpful in its responding to disasters rapidly. However, OFDA's funding has not kept pace with the demands of disaster requirements. OFDA operates in a crisis management mode often, but it lacks a comprehensive work force plan, and does not emphasize standardized operating procedures. Additionally, OFDA does not routinely evaluate previous results of its responses, which prevents it from taking full advantage of lessons learned. The GAO concluded that A.I.D. should (1) identify and provide for adequate OFDA staffing levels, (2) require follow-up evaluations, (3) submit more realistic budget requests, (4) better integrate its disaster assistance strategies with country development programs, and (5) update its policies on disaster assistance, including an evaluation of responsibilities for delivering long-term relief.

El Salvador: Role of Nongovernment Organizations in Postwar Reconstruction

The cost of the Government of El Salvador's (GOES) National Reconstruction Plan (NRP)is an estimated $1.5 billion. The U.S. estimates that, over the next five years, $55 million of its $250 million assistance program will be dispersed to nongovernmental organizations (NGOs). However, the report points out that, because of the inexperience of the El Salvadoran-based NGOs in areas of developmental and relief assistance projects and their weaknesses in project design, internal controls, and accountability, the NGOs involvement has been lower than anticipated. To increase participation and to overcome the numerous shortcomings, the GOES has modified its initial requirements and has instituted a program to make technical assistance available to NGOs.

Although many NGOs expressed concern that they were being excluded from reconstruction efforts (especially the five primary FMLN-affiliated NGOs), the GAO viewed their concerns as more perceived than real. The report does state, however, that the success of the GOES efforts to increase NGO participation in the reconstruction process can only be determined if the NGOs submit more proposals for approval.

El Salvador: Efforts to Satisfy National Civilian Police Equipment Needs

Under the peace agreement signed in January 1992, the National Civilian Police (NCP) was to be entirely new and controlled by civilian authorities independent of the military. This was to occur over a two-year period with the new Police Academy graduates beginning their duties in January 1993. However, the equipment available is not adequate for the needs of the NCP.

The GOES has $14 million budgeted for police salaries and benefits, and none for equipment. A budget prepared by the NCP for 1993 and 1994 shows that $40.3 million will be needed for equipment, facilities and supplies. The report states that U.S. officials believe twice the $40 million is needed. Although the GOES has appealed to the international donor community for funding assistance, the prospects are dim, since two previous appeals resulted in no funding.

The GAO report recommends that the GOES present a more realistic and sustainable plan for equipping the NCP, ensure that the NCP receives appropriate budget priority, and identify and overcome the impediments which discourage donors from providing promised assistance.

Foreign Service: Agencies Use Various Criteria for Granting Limited Career Extensions

GAO found that each of the foreign service agencies has its own policy and procedures for granting limited career extensions (LCEs) to foreign service officers beyond their mandated time limits. During the period 1987 - 1991, A.I.D. granted LCEs to more of its qualifying individuals (68%) than any of the other four agencies. This report contained no recommendations.

A.I.D. Management: EEO Issues and Protected Group Underrepresentation Require Management Attention

GAO found that women and minorities in the Agency's civil and foreign services were underrepresented in professional and administrative job categories in several major occupations, and at more senior grade levels. In most cases, protected groups were underrepresented by a small number of individuals; the numbers by which white females were underrepresented, however, were significantly higher. While A.I.D. management generally agreed with the findings presented by the GAO, it indicated that highlighting white female underrepresentation tended to downplay the underrepresentation of other minority groups. A.I.D. agreed to continue striving to meet its EEO and affirmative action objectives.

East European Energy: Prospects for Improvement in Albania's Energy Sector

Albania's energy sector problems threaten the country's economic recovery. Albania hopes that improved foreign trade and investment, as well as modernization and expansion of its infrastructure to produce and import energy (oil, gas, coal and electricity) will help resolve its energy problems. GAO reported that A.I.D. and other international organizations are making an effort to help Albania's energy sector and to improve its business climate. There were no recommendations.

AUDIT FOLLOW-UP ACTIVITY BY BUREAU

Recommendations Requiring Action

Recommendations "requiring action" are (1) those which are unresolved for six months or more after issuance and (2) those which are not closed for at least twelve months following resolution. These recommendations must be reported semiannually to the Congress by A.I.D.

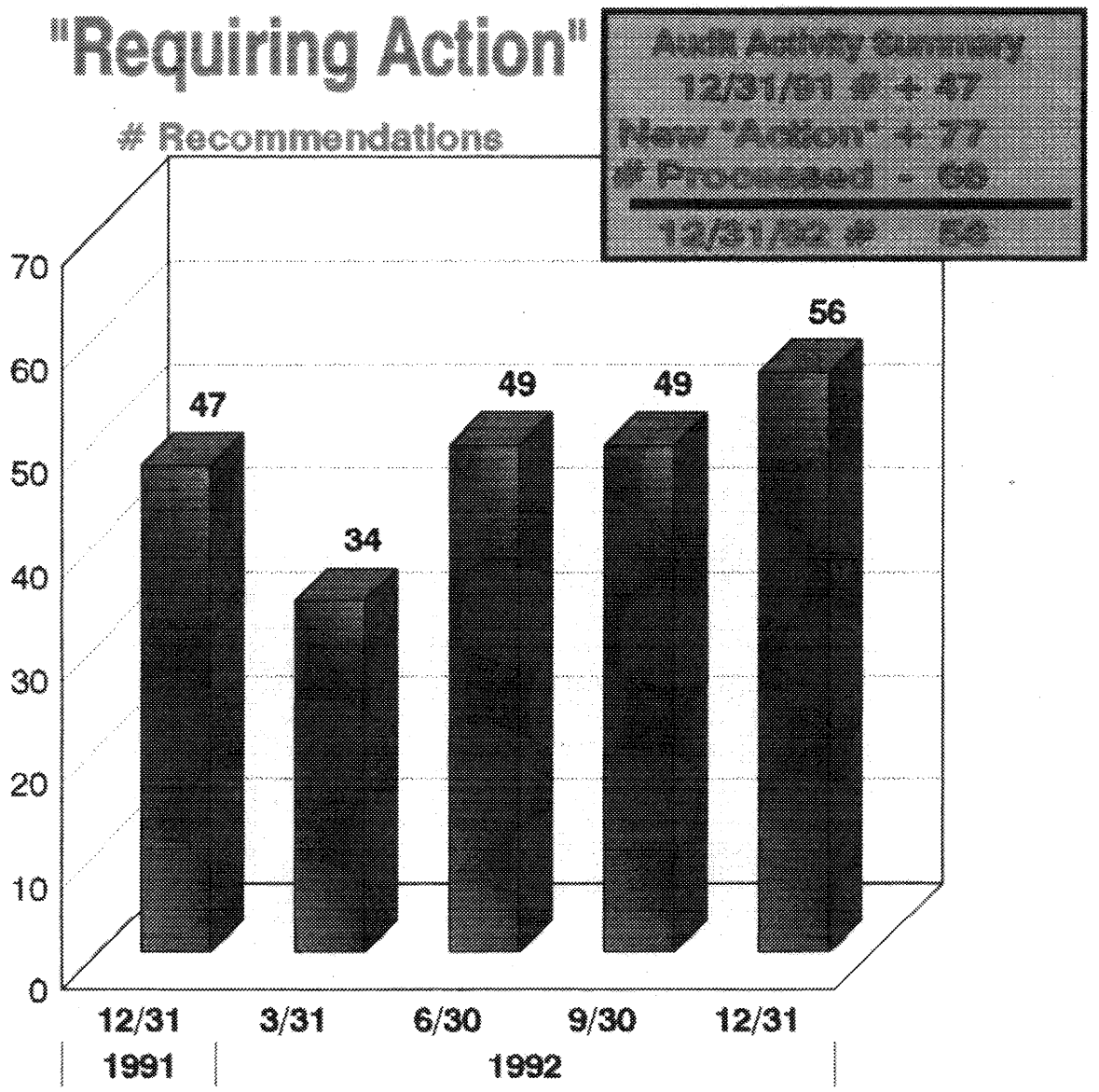
The bureaus' average number of recommendations "requiring action" on December 31, 1992 was 14. This was a **17% increase** compared to the prior December. The Africa Bureau's 24 recommendations "requiring action" on December 31, 1992, is the highest of any bureau. The Bureau has also had the highest bureau total in every one of the last five quarters.

Table I and the following two graphs show the activity of recommendations "requiring action" for the period December 31, 1991 through December 31, 1992. (The new Europe Bureau and NIS Task Force are not included because there has been very little audit activity to date.)

TABLE I
RECOMMENDATIONS "REQUIRING ACTION"
Regional Bureau Activity

BUREAU	DECEMBER 31, 1991	TOTAL ADDED	RESOLVED/ CLOSED	DECEMBER 31, 1992
Africa	24	28	28	**24**
LAC	9	24	16	**17**
Asia	8	13	15	**6**
Near East	6	12	9	**9**
TOTAL	**47**	**77**	**68**	**56**
BUREAU AVG.	12	19	17	14

Total Regional Bureau Recommendations "Requiring Action"



Recommendations "requiring action" are those which are unresolved for 6 months or more after issuance, and those which are not closed for at least 12 months following resolution.

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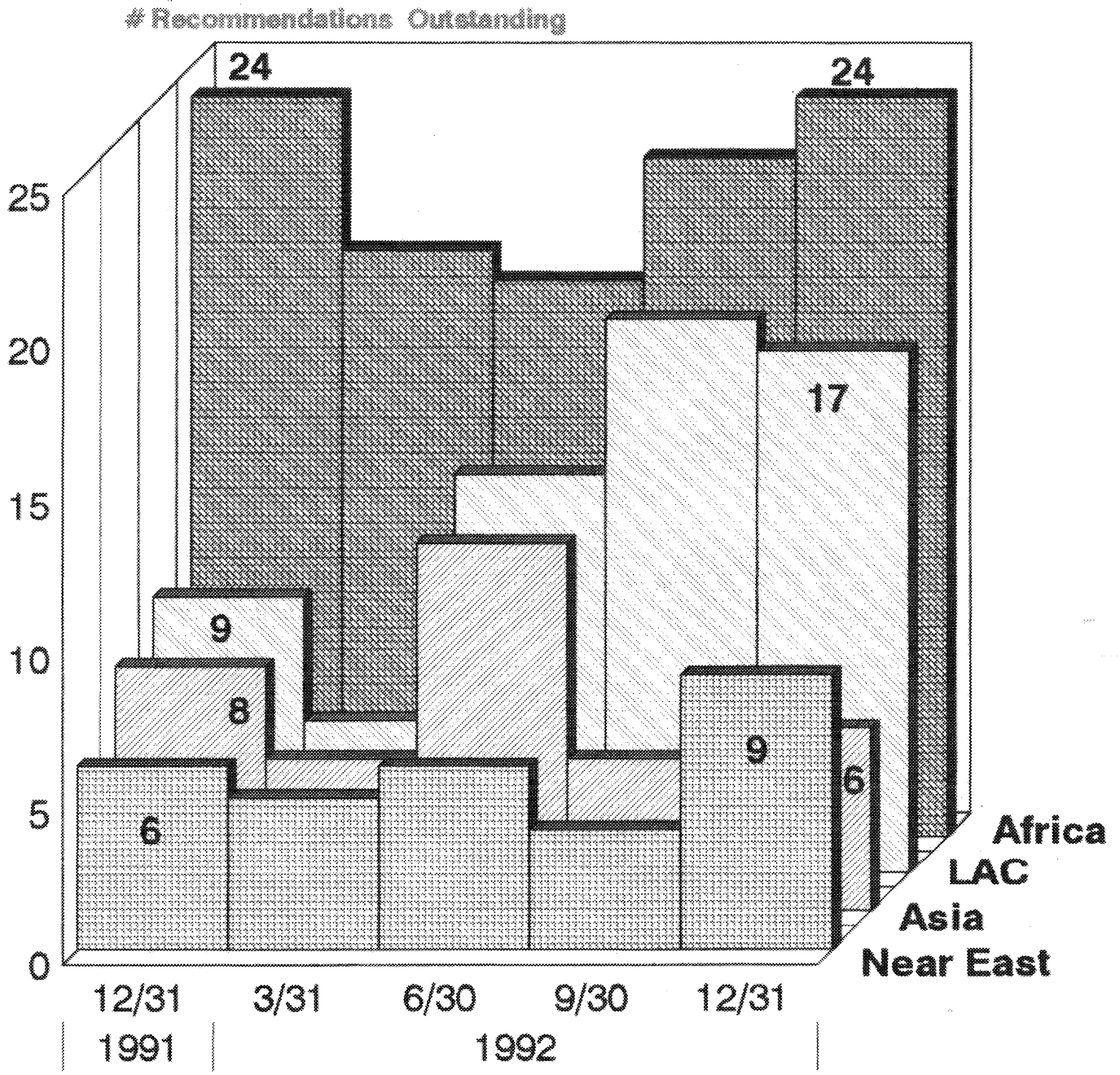
Recommendations "Requiring Action"
Regional Bureaus' Activities



Recommendations "requiring action" are those which are unresolved for 6 months or more after issuance, and those which are not closed for at least 12 months following resolution.

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Open Recommendations

The bureaus' audit follow-up performance on **open recommendations**, i.e., all recommendations that have been issued but not yet closed, shows a marked decline this quarter. The total number of open recommendations has increased **34%** since September 30, and a **mammoth 59% since the June quarter**. Compared to a year ago it is up 22%.

TABLE II
NUMBER OF OPEN AUDIT RECOMMENDATIONS
by Regional Bureau

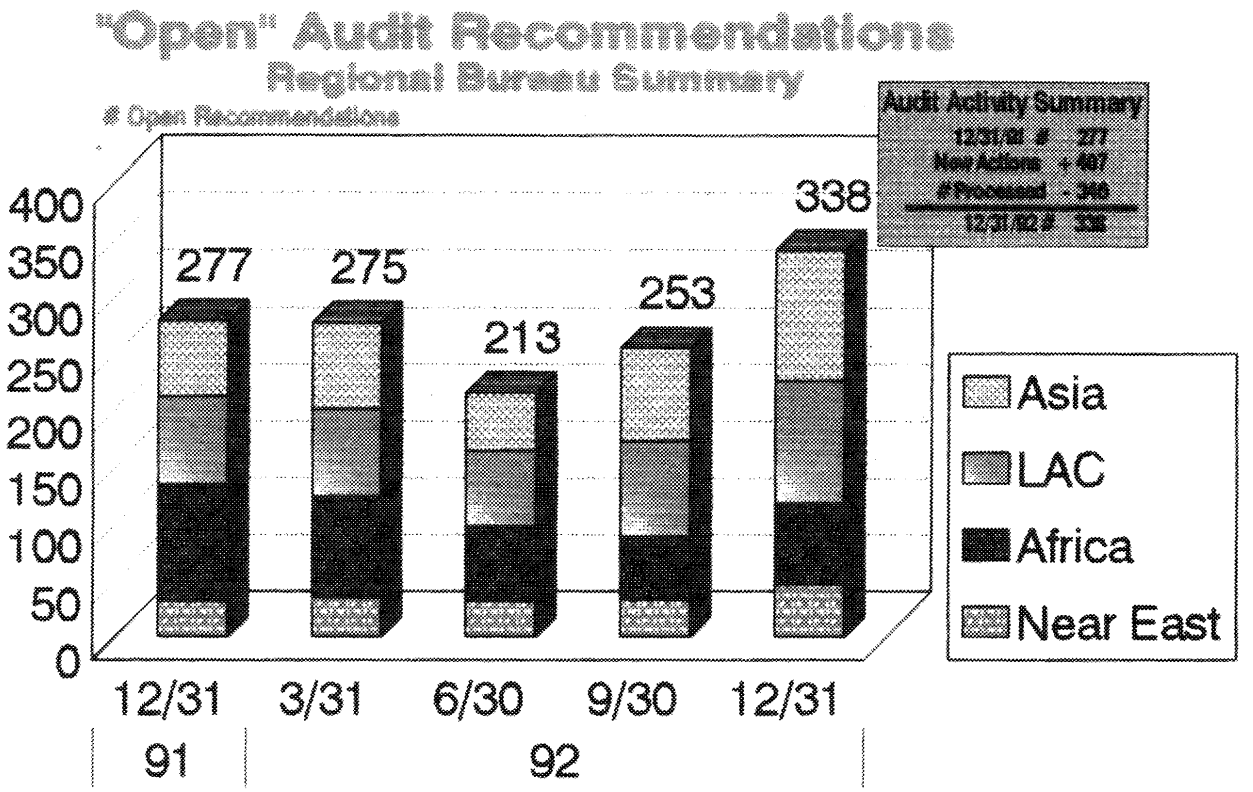
BUREAU	12/31/91	3/31/92	6/30/92	9/30/92	12/31/92
Asia	67	77	51	84	**114**
LAC	78	76	65	83	**108**
Africa	101	88	66	56	**71**
Near East	31	34	31	30	**45**
TOTAL	**277**	**275**	**213**	**253**	**338**

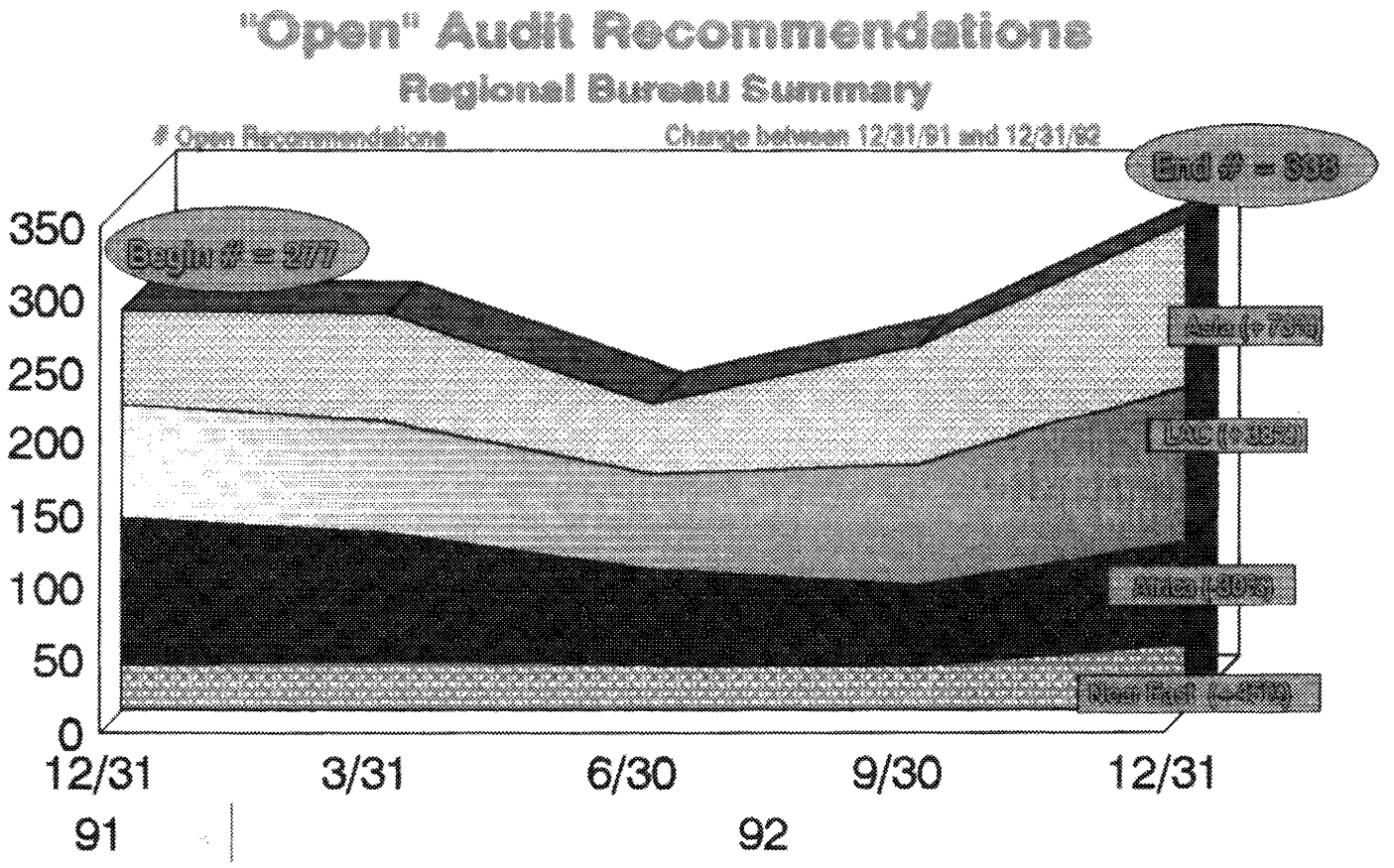
The Asia Bureau's open recommendations not only increased 36% in the last three months but more than doubled (124%) in the six months since June 30, 1992 to 114; the highest in the Agency. During the last five quarters, the bureau closed an average of 24 recommendations while an average of 36 recommendations were added.

Although the LAC Bureau was second (108) in the number of open recommendations at December 31, 1992, its quarterly average of 82 open recommendations was the highest of any bureau during this fifteen month period. The bureau closed an average of 21 recommendations each quarter compared to an average quarterly increase of 25 recommendations.

Africa had the highest average quarterly closure rate for the December 31, 1991 through December 31, 1992 period; however, the number closed in the last quarter dropped to 10.

The Near East Bureau's open recommendations increased from 31 to 45 (45%) from December 31, 1991 to December 31, 1992. However, its total of 45 open recommendations is, once again, the lowest of the regional bureaus.





Open audit recommendations are audit recommendations that have been issued but not yet closed.

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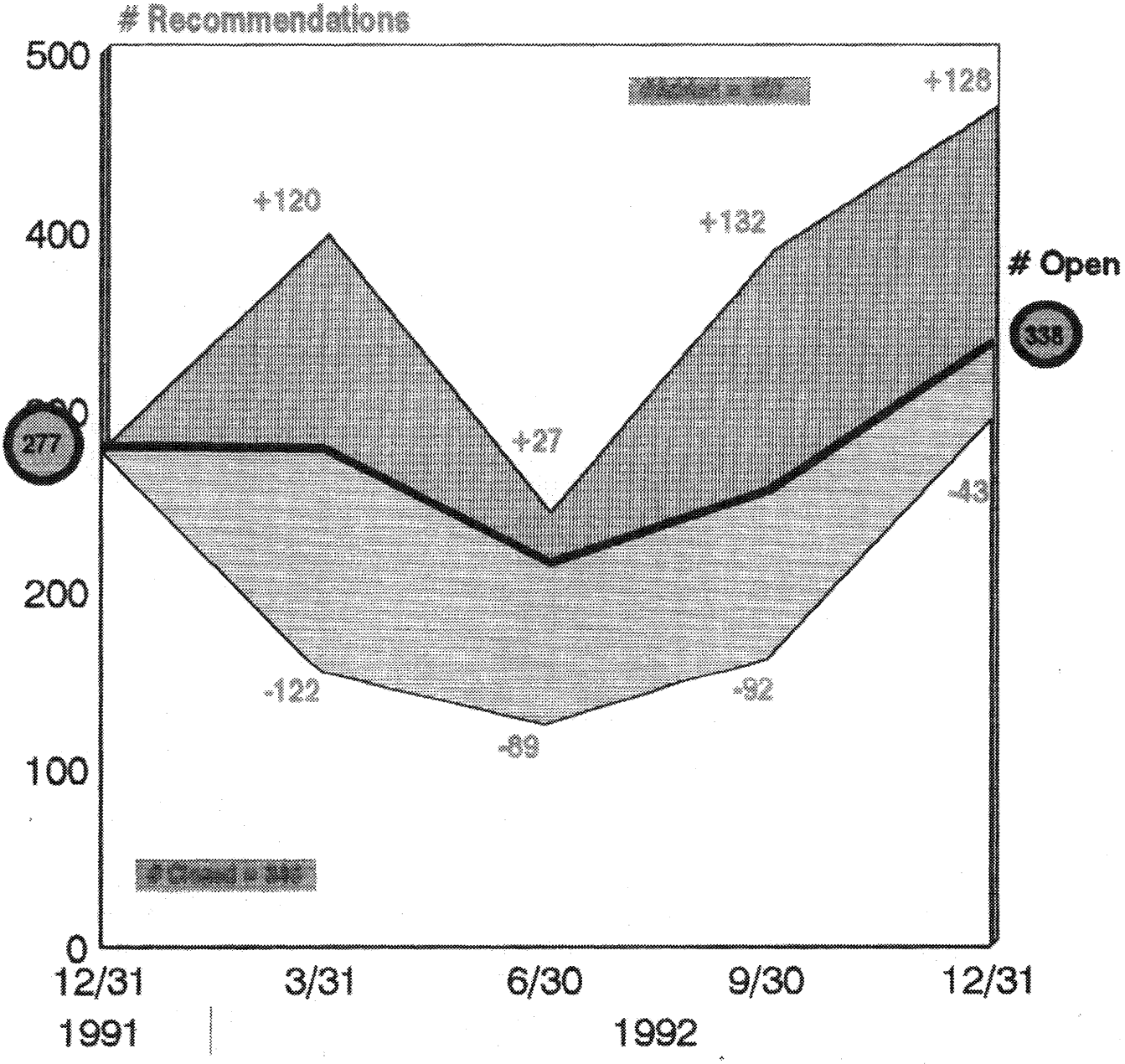
"Open" Audit Recommendations
Bureau Performance Summary



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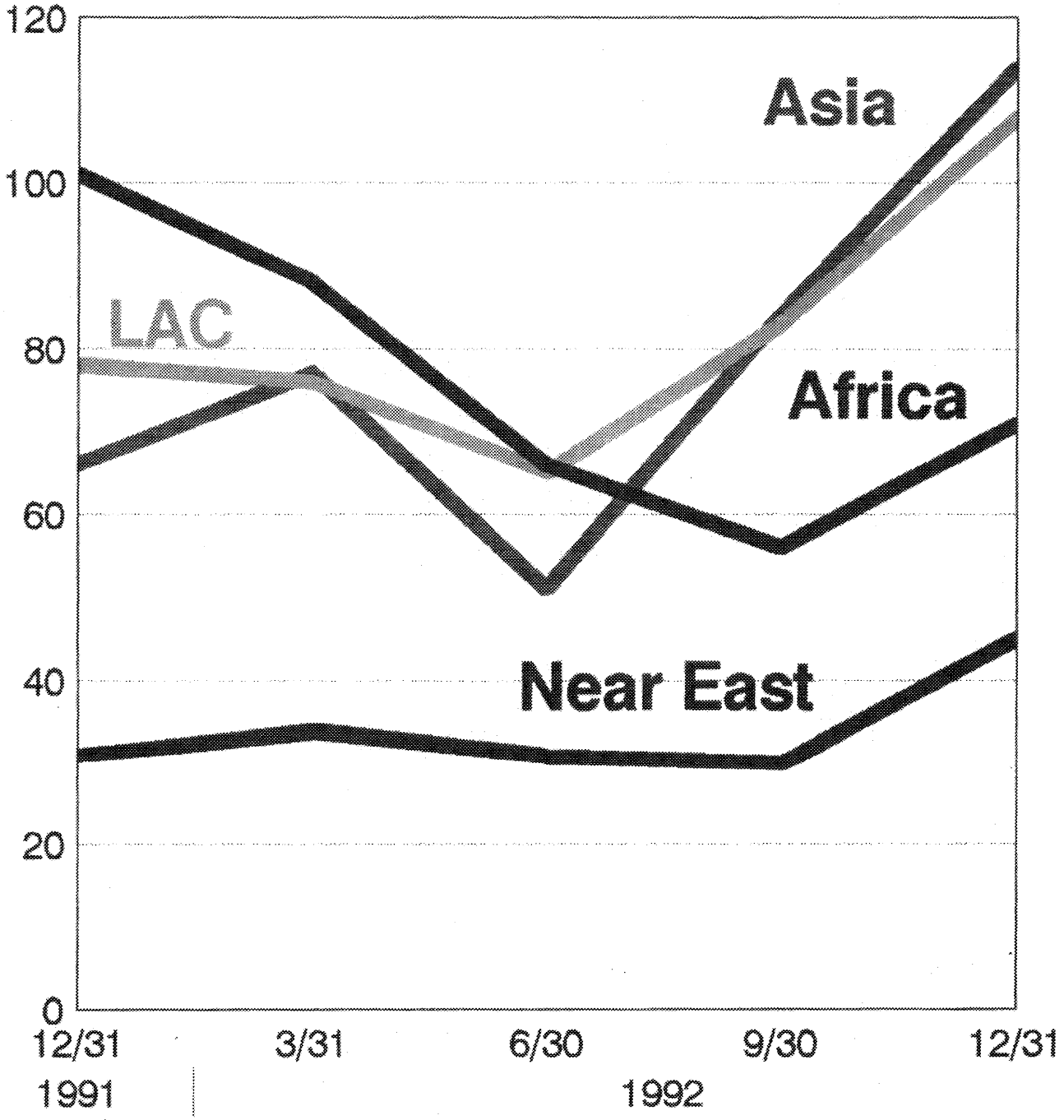
Regional Bureau "Open" Audit Recommendations



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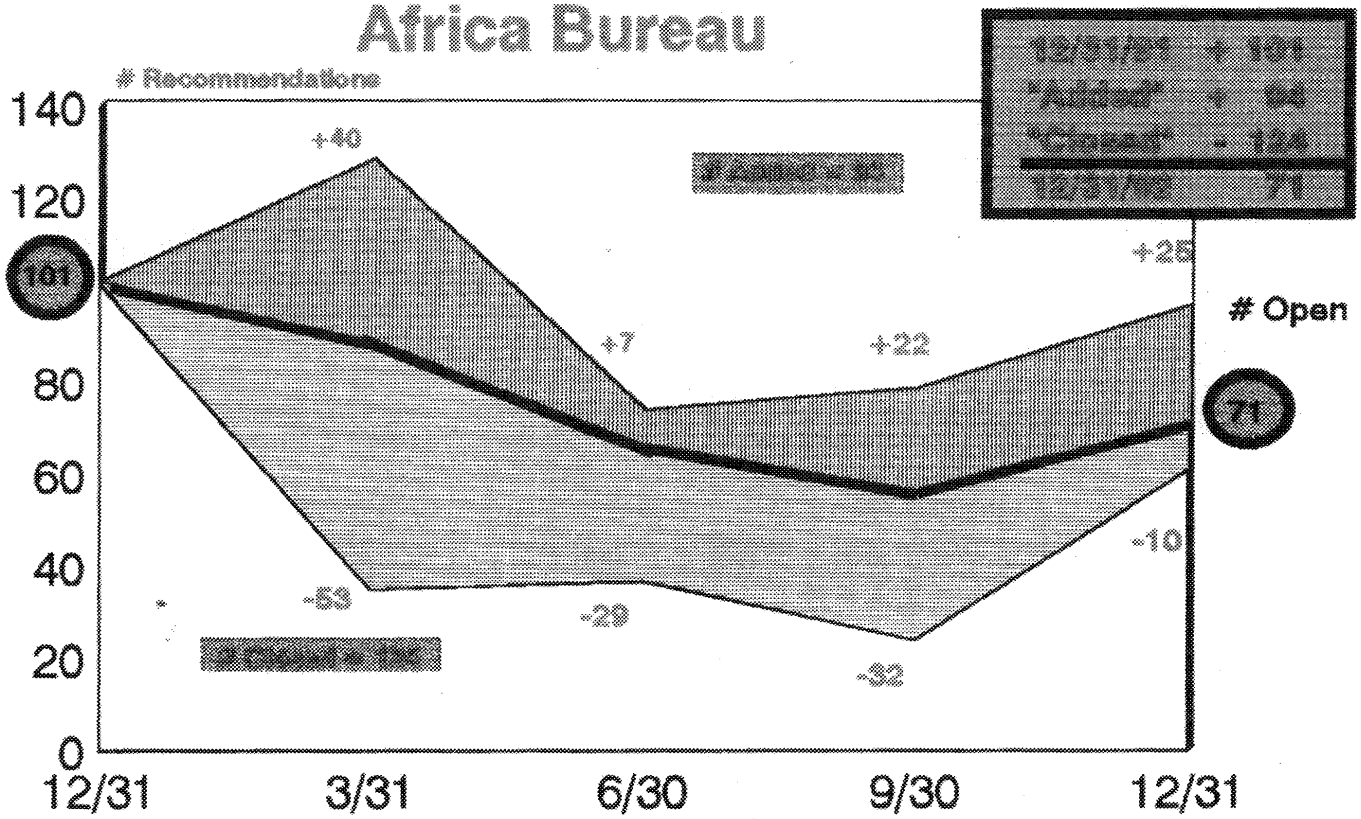
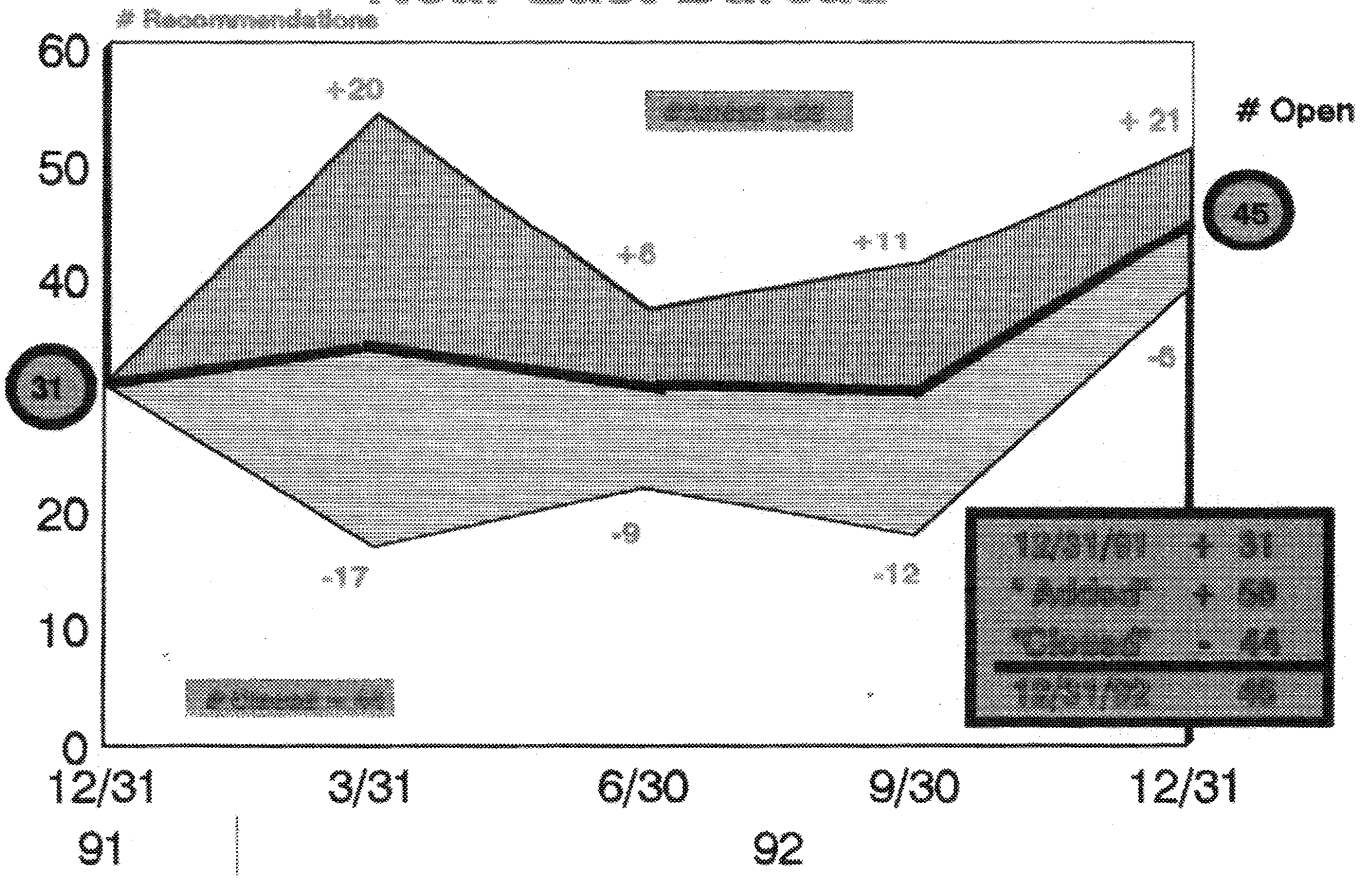
"Open" Audit Recommendations
Africa Bureau



Near East Bureau



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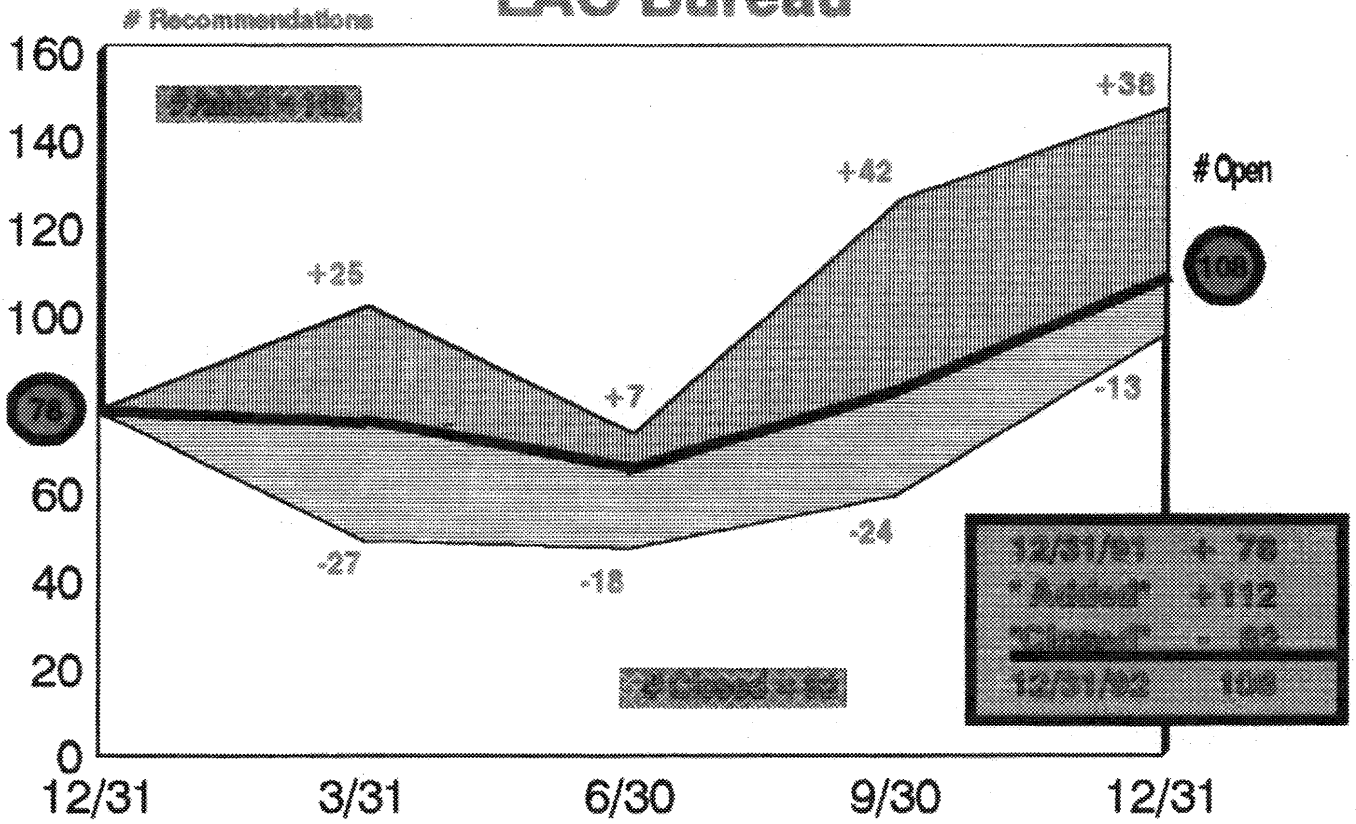
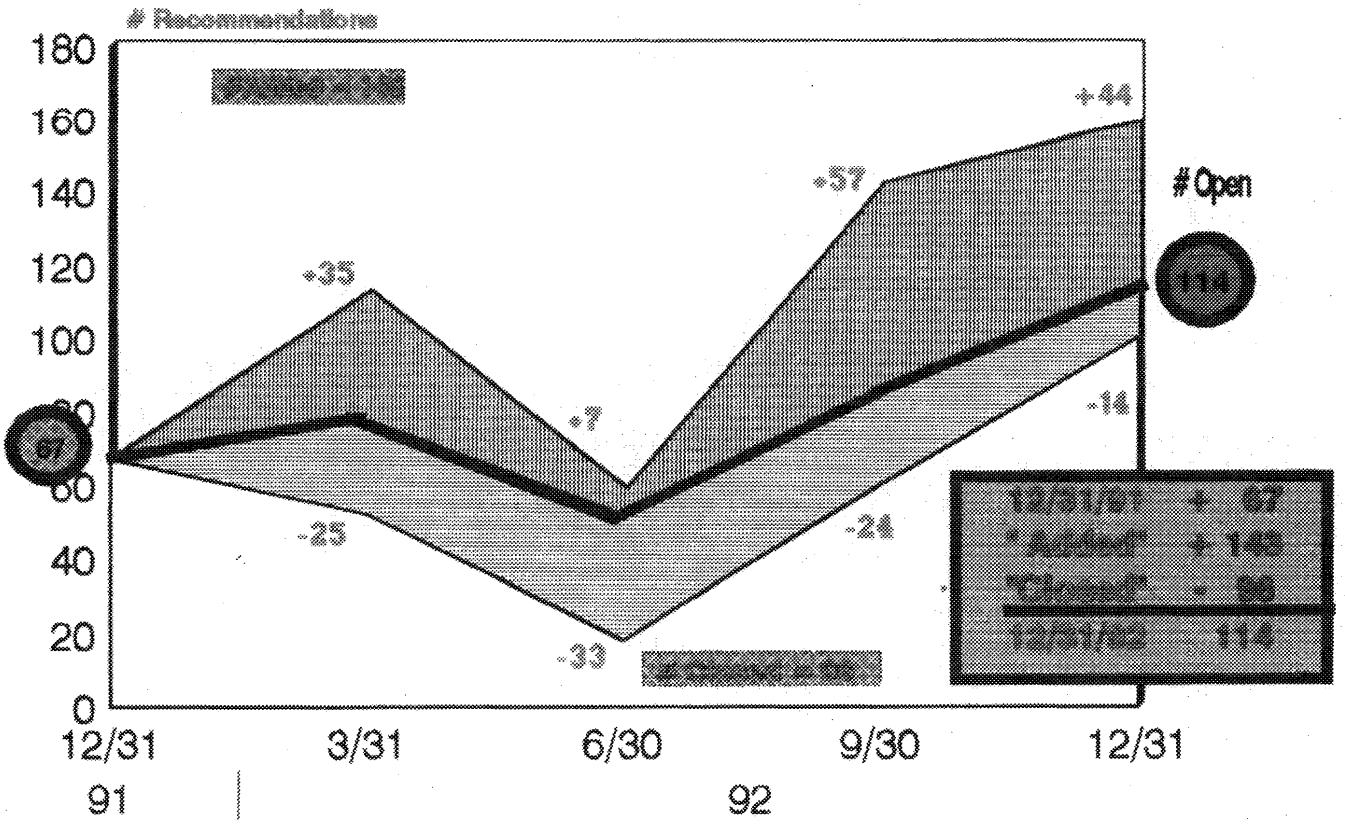
"Open" Audit Recommendations

LAC Bureau



Asia Bureau



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OLDEST OPEN AUDIT RECOMMENDATIONS

A summary of and status report on the four oldest open audit recommendations follow:

The oldest open recommendation (October 1989) requires that USAID/Pakistan ensure (1) that documentation exists to support the deposit of local currency equivalent of $79.5 million into special accounts **and the expenditures for authorized purposes, and (2) that local currency generated** under the private sector components of the commodity import programs **was deposited into the special accounts**. The Mission has requested RIG/Singapore to close the above recommendation based on results of local currency account reviews by a local accounting firm. This audit recommendation should be closed by February 28, 1993.

The second oldest open recommendation (November 1989) involves the Catholic Relief Services' administration of a P.L. 480 Title Program with the Government of Morocco (GOM). Commodity losses by the GOM between June 1981 and May 1989 resulted in original claims totalling $985,589. Although no claims were recovered, CRS, in negotiations with A.I.D., determined that **$681,000 is recoverable** from the GOM. CRS has offered in kind restitution and asked for consideration for past contributions in excess of planned program levels.

The third oldest open recommendation (March 1990) stems from an audit of the Health Systems Support Project with the Ministry of Public Health and Social Assistance (Ministry) of El Salvador.
The project was to strengthen the Ministry's capability to deliver and support basic health care services. The recommendation questions the **use and disposition of commodities valued at $2,043,107** due to improper closeout procedures. This condition caused unliquidated commitments to be overlooked in deobligation and reprogramming reviews. Adequate documentation for the commodities was not provided. The Mission intends to comply with A.I.D. policies and procedures, as well as review the Mission Accounting and Control System files for obligations, earmarks and commitments that have expired.

The fourth oldest open recommendation (October 1990) results from an audit of the Semi-Arid Food Grains Research and Development II Project, which was designed to increase food production in semi-arid countries faced with environmental problems and scarce resources. The project was authorized in 1986 for $11.25 million. Of seven recommendations made by the IG, only one remains open. The **IG questioned $14,708 charged to operating costs which may have been personal**. There has been no progress reported on this recommendation since the last Quarterly Report.

AUDITS NEEDING FINAL ACTION:

Audits with management decisions at least one year old, for which final action has not been completed, have decreased from 70 to 43 during this quarterly period. Although most of the activity for the 27 "completed" recommendations occurred before September 30, 1992, they were included as open in the September Report because the completed actions were not reported until after the Report was issued. The table below shows the bureaus/offices responsible for completing action on these recommendations.

AUDITS NEEDING FINAL ACTION
by Bureau/Office

BUREAU/OFFICE	NUMBER OF AUDIT RECOMMENDATIONS SEPTEMBER 30, 1992	NUMBER OF AUDIT RECOMMENDATIONS DECEMBER 31, 1992
Africa	21	16
LAC	31	9
Asia	5	2
Near East	1	4
Financial Management	5	5
Procurement	4	4
Inspector General	2	2
Procurement, Policy and Evaluation	1	1
TOTAL	**70**	**43**

MANAGEMENT CONTROL INFORMATION

Unsatisfactory Management Controls

Missions reported their 1992 Internal Control Assessments (ICAs) under fourteen functional categories. As an integral part of the Federal Managers' Financial Integrity Act process, the Management Control Staff (MCS) reviewed each of the sixty-two mission submissions and tabulated the number of unsatisfactory management controls (UMCs) reported by fifty-one missions in each category by regional bureau.

When considering the data, bear in mind that there is a certain hierarchy to the FMFIA process. High risk areas and material weaknesses are covered in the FMFIA Report; unsatisfactory management controls are not. Although not covered in the FMFIA report, in some respects UMCs engender as much or more concern than the more visible high risk areas and material weaknesses. The reasons are several:

- They are identified largely through self-assessments, and, therefore, suggest a candid judgement of a real or potential problem area.

- The number of UMCs is not only large (451), but, for a number of categories, reflect a concern in more than a few missions. For example, of the 70 missions, 34% reported UMCs in project development; 57% in project implementation; 37% in travel advances/reimbursements; etc.

- In reviewing UMCs reported by missions and recommendations specifying or implying material weaknesses from audits performed during the FMFIA reporting period, compared to material weaknesses reported by missions, one is struck by the disparity in numbers. For example, for the 22 missions in a sample group of countries where audits were undertaken, the audit recommendations cited 135 material weaknesses, missions cited 40 material weaknesses and missions cited 130 UMCs. Based on a review of the audit reports and mission FMFIA submissions, there is a reasonable presumption that many mission-cited UMCs are audit-cited material weaknesses and, to the extent this is true, then some UMCs represent more serious problems than the term implies.

Unsatisfactory Management Controls By Category, Per Region - FY 1992

Category of Control	Africa 1/5/	Asia 2/5/	LAC 3/5/	NE 4/	Total
Proj. Development & Program Implementation	59	5	46	14	124
Contract Implementation & Grants/Cooperative Agreements	37	6	23	3	69
Nonproject Assistance & Food Aid	30	12	13	7	62
Participant Training	8	4	7	4	23
Budget	1	-	-	-	1
Total Operational UMCs	[135]	[27]	[89]	[28]	[279]
Audit	18	9	10	6	43
Nonexp. Prop. & Gen. Mission Mgt.	39	7	11	3	60
FM (Funds Cntrl., Trav. Adv./Reimbur., Payments)	39	5	43	10	97
Total Adm. Support UMCs	[96]	[21]	[64]	[19]	[200]
TOTAL.....	231	48	153	47	479

1/ Burkina Faso, Burundi, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Niger, Nigeria, REDSO/ESA, REDSO/WCA, Rwanda, Senegal, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zimbabwe.

2/ Bangladesh, Indonesia, Pakistan, Sri Lanka.

3/ Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Rep., Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, RDO/C, ROCAP, Uruguay.

4/ Egypt, Jordan, Morocco, Oman, Tunisia, Yemen.

5/ Missions reporting *no* unsatisfactory management controls are: AFRICA - Botswana, Mali, Niger; ASIA - Afghanistan, India, Nepal, Philippines, S. Pacific, Thailand; LAC - Jamaica, Panama.

umcmanip.tab;wealli;930317

The following table summarizes by bureau, mission-reported deficiencies in descending order:

UNSATISFACTORY MANAGEMENT CONTROLS

BUREAU/FUNCTIONAL CATEGORY	AFRICA	ASIA	LAC	NE	TOTAL
Program Implementation	37	4	32	10	83
Audit	12	9	10	6	37
Project Development	18	1	12	4	35
Grants and Cooperative Agreements	18	2	13	2	35
Travel Advances/ Reimbursements	17	-	12	6	35
General Mission Management	23	2	7	-	32
Nonproject Assistance	19	8	3	2	32
Payments	11	4	15	2	32
Food Aid	11	4	10	5	30
Contract Implementation	15	4	9	1	29
Nonexpendable Property	15	5	4	3	27
Funds Control	8	1	13	2	24
Participant Training	4	4	7	4	1
Budget	1	1	1	1	1
TOTAL	**209**	**48**	**147**	**47**	**451**

As shown in the preceding table, the number of UMCs reported under "Program Implementation" were twice as high as the second largest reported category: "Audit Coverage". Included in the "Program Implementation" category are; (1) establishing and following Agency guidance on the proper use, preparation and approval of Conditions Precedent, covenants and Project Implementation Letters; (2) adhering to project officer's responsibilities (including compliance with Agency policy and Federal Acquisition Regulations) and monitoring of projects; (3) assuring host country contributions are provided

as planned, and (4) reporting on the project's progress.

UMCs reported by the missions in the functional categories -- audit coverage, project development, administration of grants and cooperative agreements, and travel advances and reimbursements -- were the most commonly reported after program implementation. Many of the control standards reported under these and other categories together with the leading deficiency found by the IG during FY 1992, "Inadequacy of financial/accounting and internal control systems" are cross-cutting and, therefore, impact on project implementation (documentation, supervision, accounting and internal control systems, etc.). These control standards can be found in virtually each management control category that is in the ICAs. However, to be consistent with previous ICAs, the functional categories used were the same as in prior years.

There were a number of functional categories in which missions reported multiple UMCs, but did not report any material weakness for that function. Although, in some instances it might have been appropriate to consider the deficiency as a material weakness, the MCS relied upon the bureaus to analyze the missions submissions, evaluate the UMCs, and determine if there were any material weaknesses identified that should be forwarded to the MCRC and considered by them for inclusion in the FMFIA report.

Further review and discussions between the MCS and regional bureaus will be scheduled to accurately assess the seriousness of the reported deficiencies and whether or not any one or more should be reclassified in FY 1993 as a material weakness if the same circumstances still exist.

SUMMARY MINUTES OF THE DECEMBER 15, 1992 MCRC MEETING

Ambassador Michel, Chairperson of the MCRC, opened the meeting at 10:00 a.m. and asked John Koehring, FA/MCS, to comment on the first agenda item, the Federal Managers' Financial Integrity Act process.

FMFIA Process

Mr. Koehring briefly described the process, with emphasis on the 8 high risks, the 85 material weaknesses and the 470 unsatisfactory management controls (UMC) reported as of November 27, 1992.

Ambassador Michel expressed concern that Agency managers might be reacting to problems after they have escalated instead of getting out in front of the issue and resolving them when they are minor problems.

Ambassador Michel tasked FA/MCS with providing the bureaus with information on UMCs. He asked the bureaus to report back to FA/MCS on what was being done to address these vulnerability problems and that this issue and the reports be on the next MCRC agenda.

Mr. Ames commended Mr. Koehring and the MCS office for an outstanding effort. These sentiments were seconded by the Inspector General and Ambassador Michel requested that an official commendation be recorded.

The three proposed new "High Risks" in the FMFIA report were discussed. Ambassador Michel wondered if the NIS issue was a general issue or narrowly restricted to a desire for reduced collaboration with other Agencies. NIS, Jack Owens, DAA/FA, Herbert Beckington, IG, and Reggie Brown, AA/NE, supported the premise of significant problems occurring with Section 632(b) transfers. It was agreed to leave this item in the letter as written.

The next proposed "High Risk," **Program Agenda vs. Management Capability**, gave rise to discussion as to whether, as written, it was distinguishable from the existing high risk of **Inadequate Program Monitoring and Oversight**. LAC, FA/B, NIS, NE and FA/MCS were tasked with revisiting this item and resolving how it should be handled. [As a result of their work, it was decided to mention the problem in the cover letter to the FMFIA Report (final paragraph) without identifying it as a separate new high risk area.]

The last proposed high risk has been identified in the past and has been the subject of numerous audit findings, but this was the first time it has been proposed. It was agreed to keep it in as written.

General Beckington described the report as the most complete and forthright he had seen.

Quarterly and Semiannual Reports

Mr. Koehring described these reports, noting that all MCRC members had received copies and that, for the first time, copies were being sent to each mission. Ambassador Michel commented that they should be taken seriously and encouraged bureaus to follow-up on audit responses, especially those in the last table of the semiannual report concerning management decisions requiring final action. He mentioned the periodic "lessons learned" cables that one bureau sends to its missions and encouraged all bureaus to demonstrate Senior Management interest by official communications with field missions and support for their efforts to close outstanding audit recommendations.

Direct Contracting System

The discussion of this issue, Certification by the Agency's Procurement Executive of the Agency's Direct Contracting System, was lively and extensive. Jack Owens and Jim Murphy, FA/PPE, were asked what could be done to improve the process, to correct deficiencies and to improve contracting. Mr. Owens said that all the issues were being

addressed, but that lack of contract officers, lack of training, new requirements, lack of procurement planning, etc., would take time and a serious effort to correct. Mr. Murphy opined that there was a lack of commitment to follow prescribed procurement regulations. He emphasized that the entire Agency needed to look at the contracting process not as a hinderance but as an essential service to effective and efficient implementation, and that contracting must be treated as an equal in project development and implementation. Ambassador Michel agreed, and requested that FA begin an education program by having contract officers speak at Bureau staff meetings and other appropriate fora. He also asked that this issue be included in future MCRC agendas.

Other

Tim Fry, GC, said that the American Foreign Service Association (AFSA) was reviewing the issue of whether officers below Mission Director and Deputy Director level could/should sign representation letters. The IG said that the representation letter process was proceeding smoothly, had come a long way, and he thought that it would soon no longer be an issue.

Alex Sloan, ES, distributed a draft of a notice on procedures for responding to GAO Reports.

Mr. Ames commented that the Management Improvement Plan, Phase II, was all encompassing. It included not only the AID-OMB "SWAT" Team report, but also the Presidential Commission report, GAO reviews, CFO Report and that the Agency has met all its targets.

The last order of business was an informal poll on the frequency of MCRC meetings - monthly or quarterly. By consensus, it was decided to continue with the regular quarterly meetings noting, however, that special meetings could be convened when required.

The meeting adjourned at 11:30 a.m.

Items Not Discussed

Two items, the IG/A/PPO Monthly Report on Open Audit Recommendations and Implementation of the Management Control Plan (MCP), were not discussed because of insufficient time. Thus, what would have been said in introducing these topics is reported herewith.

IG/A/PPO Monthly Report on Open Audit Recommendations - This monthly report is free information which is timely and important because it alerts one to opportunities to improve management and, at the same time, provide a forewarning of actions in arrears which must be reported to the Congress on a semiannual basis.

No less than twice a year representatives from each regional Bureau, the IG, and the

Management Control Staff convene to discuss each open recommendation and share documentation. By reviewing the IG report each month, the Bureaus can get ahead of this process, better track each recommendation needing attention and accelerate resolution and closure.

Implementation of the Management Control Plan (MCP) - At the October 6, 1992 MCRC meeting, it was agreed to proceed with a revised MCP which, inter alia:

- divides the Agency along both operational and functional lines;

- retains Bureaus' chain of command and operational managers' oversight responsibilities, and annual unit reviews and certification;

- reduces committees/function coverage in total and near term by starting with three to five areas of operation; and

- will use existing groups/mechanisms as much as possible.

Since then, the following implementation steps have been or are being taken:

- Certifying Committees are being established for 3 to 5 functional areas of Agency operations beginning with:

  - Financial Management; and
  - Information Resource Management.

  The chairpersons for these committees - the Controller, Michael G. Usnick, for Financial Management and the Director of IRM, Barry D. Goldberg, for Information Resources Management - are preparing proposals for committee participation and work programs.

- A training proposal on management controls for initial training of committee participants has been solicited and received from the USDA Graduate School's Government Audit Training Institute. The training proposal appears satisfactory.