

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 1985—September 30, 1985

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U.S. Agency For International Development

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 1985—September 30, 1985

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U.S. Agency For International Development

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OVERVIEW

The Agency for International Development's economic assistance budget for fiscal year 1985 is estimated to be \$6.6 billion, of which \$2.4 billion will be provided from the Development Assistance appropriation and \$4.2 billion from the Economic Support Fund appropriation. In addition, funding for Public Law 480 in fiscal year 1985 is estimated at \$2.1 billion. The Office of Inspector General (OIG) is tasked with the responsibility of promoting the economy and efficiency of the Agency's programs, reducing the incidence of fraud, waste and abuse, and managing the Agency's worldwide security program. To carry out these responsibilities the OIG, as of September 30, 1985, had a staff of 186 compared to an authorized employment ceiling of 194.

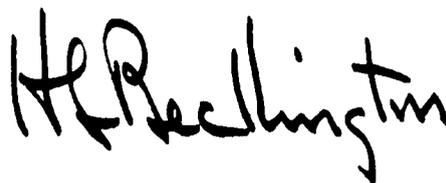
During this semiannual reporting period, our major accomplishments were:

- The Office of Investigations processed 26 administrative sanctions, obtained seven convictions and made 17 referrals to the Department of Justice. Investigative work resulted in fines, restitutions or recoveries totaling \$3.4 million and in management commitment savings of \$440,000.
- The Office of Audit issued 139 reports which identified economy and efficiency savings of \$42.0

million, questioned the validity of \$3.5 million in costs that had been incurred by the Agency, and identified \$2.2 million which should be reprogrammed through deobligation of funds.

On recommendations contained in IG audit reports issued during this and prior reporting periods, Agency management has been quite successful in sustaining and obtaining corrective actions. Agency management sustained \$16.3 million or 70 percent of recommended recoveries or deobligations totaling \$23.2 million. A total of \$15.7 million was actually recovered or deobligated. A total of \$7.8 million sustained by the Agency was awaiting collection.

- The Office of Security initiated a program to improve security awareness throughout the Agency, participated with the Department of State in formulating standardized overseas residential security and communication policies, and conducted 58 background investigations and 458 national agency checks on prospective employees or contractors.



Herbert L. Beckington
Inspector General

OFFICE OF INVESTIGATIONS

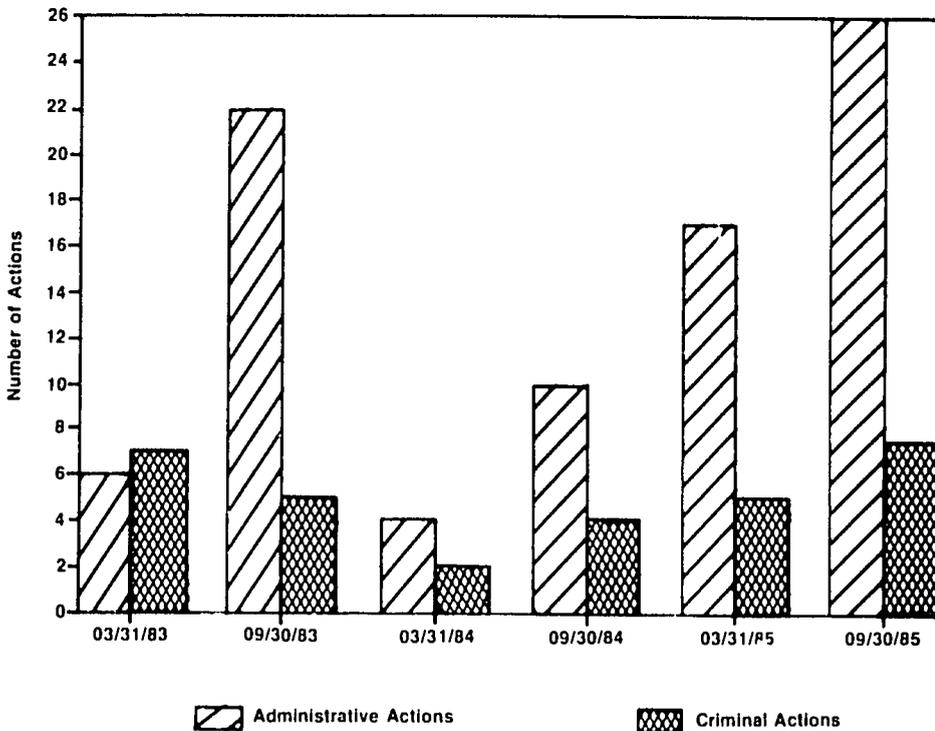
INVESTIGATIVE RESPONSIBILITY

The Office of the Assistant Inspector General for Investigations (AIG/I) has investigative oversight responsibility for AID projects and resources located in over seventy countries. Operating out of seven regional investigative offices, investigators face the complexities of conducting investigations in an international environment which requires extensive foreign travel, coping with language barriers and dealing with sensitive political and cultural differences. In spite of these difficulties, this has been a particularly productive period in terms of meaningful investigative results. This was especially true for investigations involving fraud and employee misconduct. A summary of investigative results for this period follows.

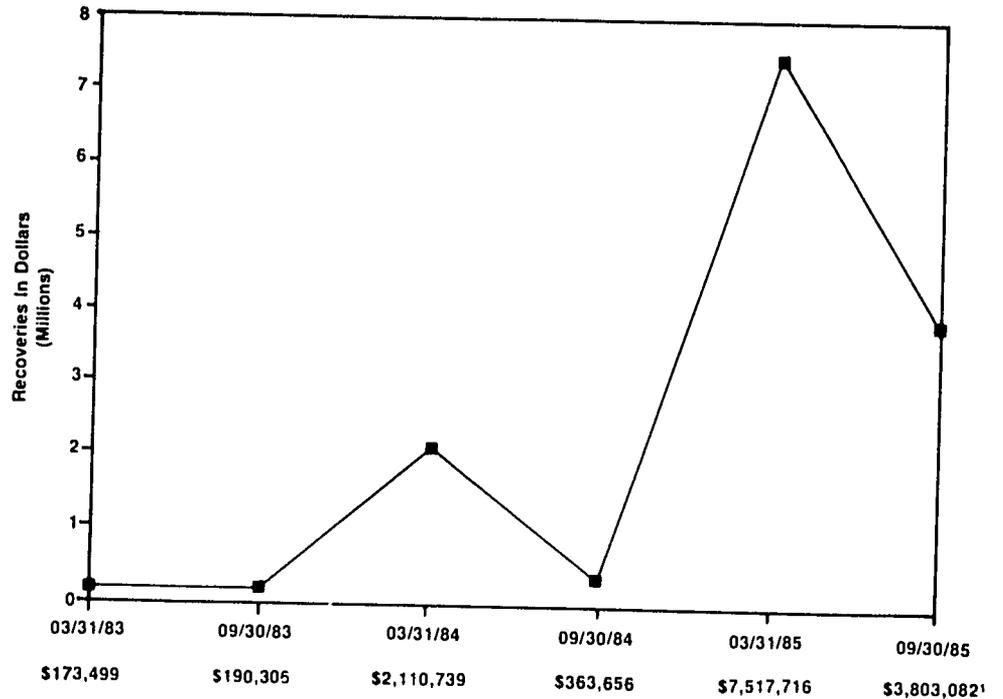
Convictions	7
Administrative Sanctions.....	26
Fines/Restitutions/Recoveries	\$3,360,643
Referrals to the Department of Justice	17
Management Commitments:	
— to recover funds	\$251,053
— to more efficiently use resources	\$191,386

INVESTIGATIVE RESULTS

**Investigative Actions
Six Month Periods**



**Investigative Recoveries
Six Month Periods**



*This graph is based upon criteria established by the President's Council on Integrity and Efficiency. The \$385 Million recovery of fraudulent securities discussed in a subsequent section of this report does not meet this criteria.

These investigative results were achieved by a staff of 17 inspectors. The investigations synopsized below show the diversity and unique circumstances associated with many of our international investigations.

- In response to information supplied by an Agency Housing Officer, a 23-year scheme to sell fraudulent housing guarantee bonds, purportedly backed by the Agency and the Department of State, was halted in September 1985. An Illinois man was arrested and fraudulent promissory notes with a face value of \$49 million and a total value, including interest, of \$385 million were recovered.

In 1966 the Agency rejected a proposal by the subject to guarantee loans on several housing and construction projects in Peru. While the Agency was considering the proposal the subject signed contracts with various cooperatives for this construction and received a series of promissory notes payable to his

**\$385 MILLION
HOUSING BOND
SCHEME LEADS TO
ARREST**

corporation. After the Agency rejected the proposal, the subject continued his attempt to market or redeem these notes, falsely representing that they were backed by AID, the Department of State or the Government of Peru.

Charges against the subject included: negotiating false or counterfeited securities, possession with intent to defraud through false securities, mail fraud, and transporting fraudulent securities in interstate and foreign commerce. The successful resolution of this case was a joint effort between the AIG/I and the United States Secret Service with assistance from the Illinois Bureau of Investigation.

TO: INTERNATIONAL INDUSTRIES DEVELOPMENT CORPORATION
 OR: MR. KENNETH D. HOCKING

№ 10-L-1
 US\$ 5,526,315.07

Iss. Date: April 4th, 1976. The amount of this note has not been paid in full as of May 4th, 1976.

FOR VALUE RECEIVED ASSOCIATION OF EMPLOYEES OF THE MINISTRY OF LABOR AND COMMUNITIES
 Av. Salaverry, Lima-Peru

hereby unconditionally promises to pay by this Promissory Note, to the order of INTERNATIONAL INDUSTRIES DEVELOPMENT CORPORATION, or Mr. KENNETH D. HOCKING, this day April 4th, 1976, the amount of FIVE MILLION FIVE HUNDRED TWENTY SIX THOUSAND THREE HUNDRED FIFTEEN DOLLARS and 87/100 plus interest at 8% per annum.

Both principal and interest on this Promissory Note are payable in full money of the United States of America without deduction for or on account of any present or future taxes, duties, or other charges levied or imposed on this note or the proceeds or holder hereof by the Government of PERU or any political subdivision or taxing authority thereof. All collection charges and costs of collection are charged against the maker.

ACCEPTED
 By ASSOCIATION OF EMPLOYEES OF THE MINISTRY OF LABOR AND COMMUNITIES

César Carrera Colmelli, President
 Ignacio Ramírez Estrada, Secretary

Fraudulent Security Recovered in \$385 Million Scheme

- Investigation results sustained allegations that two Agency employees had accepted from a major AID contractor air transportation, hotel costs, meals and recreation gratuities at the Augusta Golf and Country Club in Georgia. These senior level employees held responsible positions in the commodity and financial management areas. One employee voluntarily retired after receiving written notice of the Agency's decision to separate him for misconduct. The other received a 60-day suspension without pay.
- Reacting to a series of anonymous allegations, this investigation uncovered a scheme whereby a senior Agency Foreign Service National used his position with AID as a Commodity Import

**GRATUITIES LEAD TO
 SERIOUS
 MISCONDUCT ACTION
 AGAINST TWO
 SENIOR AID
 EMPLOYEES**

**SENIOR EGYPTIAN
 EMPLOYEE FIRED ON
 \$500,000 CONFLICT
 OF INTEREST CASE**

Specialist to act as a clearing agent for Agency contractors. During a three-year period, he received \$538,030 in commissions.

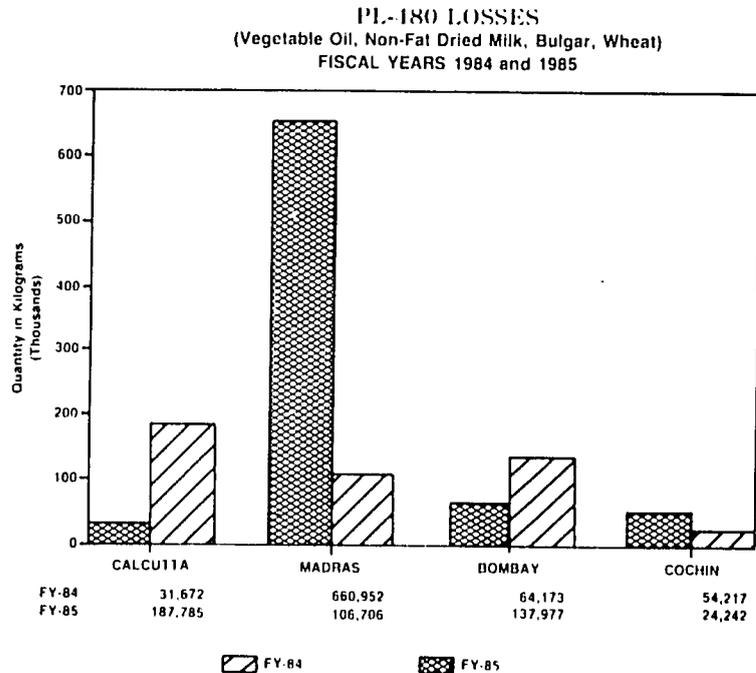
Acting in the name of a company formed by relatives, this employee utilized United States Government authorized port passes, customs contacts and the authority of his position to serve as a consultant and clearing agent to four Agency contractors. This investigation also showed that the employee used mission vehicles and subordinate employees to conduct this activity and other personal business during regular working hours. His employment was terminated and Egyptian authorities are examining possible criminal charges in relation to income tax evasion.

CIVIL SUIT BROUGHT AGAINST FORMER AID EMPLOYEE FOR \$102,000

- Based on an AIG/I investigation, the Department of Justice has sued a former Agency employee for \$102,000. The employee was previously convicted of bribery and tax evasion. The suit charges breach of fiduciary duty, unjust enrichment and seeks recovery of all payments, profits, interest and assets derived from the illegal scheme.

\$227,000 PL-180 LOSS REDUCTION ACHIEVED THROUGH JOINT ACTION BETWEEN AGENCY AND IG

- Alert Agency officials reported suspicious losses of Public Law 480 agricultural commodities from a port in India. Close cooperation between the Agency's Mission in India and the AIG/I developed information indicating a conspiracy to divert foodstuffs between Government of India railway officials and a transport contractor.



Since the suspects were Indian citizens the information developed was presented to and accepted by Indian law enforcement officials for action. The inquiry by the Indian Government resulted in the removal of the suspect contractor and the transfer of involved railway officials. Because of AIG/I and Mission interaction with Indian law enforcement officials, commodity losses were reduced in fiscal year 1985 by over 550,000 kilograms which were valued at approximately \$230,000 as indicated in the graph. Also, as a result of this joint effort, a method of graphically displaying losses on a quarterly basis was developed for future problem identification/prevention purposes.

**COMPANY PRESIDENT
CONVICTED FOR MAIL
FRAUD**

- A California company president was convicted in September, 1985 of mail fraud in connection with false advertisements for overseas employment. Working with the United States Postal Service and the State of California, this investigation showed that the company had collected several hundred \$500 deposits from job seekers who were promised nonexistent employment. The false advertisements promised employment with foreign governments—"in support of projects funded by the World Bank, Asian Development Bank and USAID." The subject was sentenced by a California Court to a suspended one year jail term, placed on probation and given six months to make restitution to 1,000 victims.

**INFLATED FREIGHT
AND PACKING COSTS
RESULT IN \$148,000
BILL FOR
COLLECTION**

- A confidential source reported that an Illinois company had improperly inflated export packing and inland freight costs of heavy duty cranes and spare parts to finance prohibited commission payments to its agent in Egypt. The investigation substantiated the allegations and showed that after the company learned such commissions were not allowed by AID, the company retained the full amount and treated these monies as excess profits. A bill of collection for \$148,548 has been issued.

**\$100,000 OF PL 480
FUNDS USED TO PAY
MILITARY FORCES**

- Agency mission officials alertly recognized and referred information on the possible diversion of PL 480, Title I rice sale proceeds in an African country. Investigation substantiated allegations that the government of the country had used \$100,000 in PL 480 proceeds to pay military salaries.

This investigation prompted a joint audit/investigation review of the entire program. Findings showed serious deficiencies in fund accountability and utilization. The review results led to a full audit which identified problem areas and recommended strengthening the entire program. The \$100,000 was restored to appropriate PL 480 accounts.

**AID CONTRACTOR
EMPLOYEE
CONVICTED OF
FORGERY**

**HOTLINE
ALLEGATION LEADS
TO \$91,600 BILL FOR
COLLECTION**

**INVESTIGATIONS OF
LOCAL PERSONNEL
RESULT IN
ADMINISTRATIVE,
CRIMINAL AND
RECOVERY
ACTIONS—A
RECURRENT PART OF
AID/AIG/I ACTIVITIES**

- Weak internal controls of an AID funded technical assistance contractor provided an opportunity for a receptionist to forge and cash company checks. The employee pled guilty in District of Columbia Court and was given a two- to six-year suspended sentence. The internal accounting system has been strengthened and approximately \$4,000 was recovered.
- A private United States citizen, using the IG Hotline, reported overcharging by a United States supplier on AID-funded farm machinery and payment of kickbacks. The investigation in the East African country did not substantiate the kickback allegation. Overpricing of about 20 percent was established, however, by the Agency's Office of Commodity Management. The supplier was issued a bill for collection for \$91,600.
- Given the Agency's global work environment, Foreign Service National employees are deeply involved in all aspects of Agency operations overseas. The vast majority of these employees are competent, highly motivated and dedicated to their jobs. However, investigations of misconduct allegations involving Foreign Service National employees is a recurrent AIG/I activity. The following examples illustrate a few of many such investigations conducted during this reporting period.
 - Investigation disclosed that the Supervisory Supply Management Officer in Mauritania had improperly issued purchase orders to a close personal friend and local businessman. These actions, which were found to be in violation of Agency Conflict of Interest Regulations, resulted in unjustified offshore purchases and overcharges totaling \$1,770. This employee resigned in lieu of termination.
 - A local Nepalese contractor's attempt to bribe a senior Foreign Service National engineer resulted in an investigation of project activities and the removal of the contractor from a \$522,000 contract. Two local national contract engineers were also reprimanded and removed from project participation. Contract revisions extended the maintenance period and reduced material costs.
 - In Niger, two Joint Administrative Office motor pool employees were convicted and sentenced to one- and three-year prison sentences for defrauding the United States Government through issuance of false and forged fuel receipts. The United States Government was awarded \$3,000 in damages.

- A senior General Services Officer supervisor in Nepal was terminated when an investigation showed that he had conspired with local oil company truck drivers to defraud the United States Government. Through prearrangement, the driver would sell a portion of his load to service stations, then upon short delivery, the employee would falsify and forge delivery receipts to cover the losses.
- Two Egyptian employees were found in possession of stolen Mission property. Both were terminated for cause, subsequently convicted and sent to prison by the Egyptian courts.
- A local Mission project accountant in Niger embezzled \$11,900 n. project funds by falsifying vouchers with forged receipts. Criminal charges are pending and \$5,000 has been recovered.

PROACTIVE INSPECTIONS

The Agency has administered foreign assistance programs in some countries for many years. It is not uncommon to see 25- or 35-year service awards presented to local employees or contractors with lengthy experience. As such, some programs' operating methodology and people are entrenched and sophisticated. AIG/I cannot rely on traditional reactive information to surface fraud, waste and abuse. To counter this situation, proactive inspections are developed with emphasis on contractors, commodity procurement and/or operating methods which are ongoing and not recently audited. Two examples of these efforts are synopsized below.

- Having discovered a series of travel fraud/irregularities in the Near East Region, a series of travel fraud indicator seminars were developed and presented to six Agency Missions. Attendees included financial and management representatives of the United States Information Service, Department of State, AID contractors, and travel and airline agents. This seminar outlined a recommended contract/rebate method to control ticket issuance and reduce the risk of travel manipulation through agent commission rebates. Two Agency Missions in Pakistan and India have implemented this suggestion and recurring savings of \$158,000 per year has resulted. Other Agency Missions are in the process of implementing a similar program.
- An inspection, during the last reporting period, disclosed what appeared to be unauthorized expenditures from a \$6.2 million seed project by host government officials. Operating expenses, which were to have been provided by the Royal Thai Government, were being charged to AID's working capital account which

**REVISED
PROCEDURES FOR
PROCUREMENT OF
AIR TRAVEL SAVES
\$158,000**

**\$2.5 MILLION
RESTORED TO SEED
PROJECT IN
THAILAND
FOLLOWING
INSPECTION**

was provided to purchase foundation seed, production supplies and inoculants, and to pay contract seed growers. Action by Mission management resulted in the equivalent of \$2.5 million in local currency being restored to the account and the appropriate operating expense funding being provided by the Thai Government in accordance with loan and grant agreements.

LESSONS LEARNED

Investigations often develop information on procedural or operational weaknesses. To keep management informed of potential vulnerabilities and/or problem areas, "lessons learned" are often prepared, when applicable, at the completion of an investigation. These "lessons learned" cover a broad range of Agency operations. Some examples follow:

PROCUREMENT CONTRACTS MUST BE SPECIFIC

- Allegations of fraudulent overpricing in an Asian country could not be substantiated due to procurement contract deficiencies. The suspect's defense, that costs reflected various local and import taxes, could not be refuted since requirements for itemized invoices and bilateral Agency tax exemptions were not incorporated into the contract. A "lessons learned" was issued and the responsible mission promptly implemented changes in procurement documents to avoid a recurrence.

LACK OF SUPERVISION CAN LEAD TO AN ABUSE OF POSITION

- An Agency Egyptian employee responsible for commodity clearances was not being properly supervised. An investigation showed that the employee had operated a port clearing service for commercial firms by trading on his Agency position and authority. Over a three-year period he had collected over one half million dollars in commissions. The resultant "lessons learned" detailed the supervisory and management weaknesses surfaced by this investigation and set in motion corrective action.

BETTER LOSS REPORTING AND ACCOUNTABILITY PROCEDURES WILL REDUCE RISK OF THEFTS

- As reported previously, employees in an Asian Mission had suffered high pouch package and mail losses over a four-year period. Hundreds of items, worth several thousand dollars had routinely disappeared. These losses had not been referred to appropriate Department of State or Agency IG investigative authorities.

One AID employee had become suspicious and developed circumstantial evidence, but failed to report this information for 12 months. When these suspicions were finally reported and investigated, the case was solved in five days. Four employees were terminated.

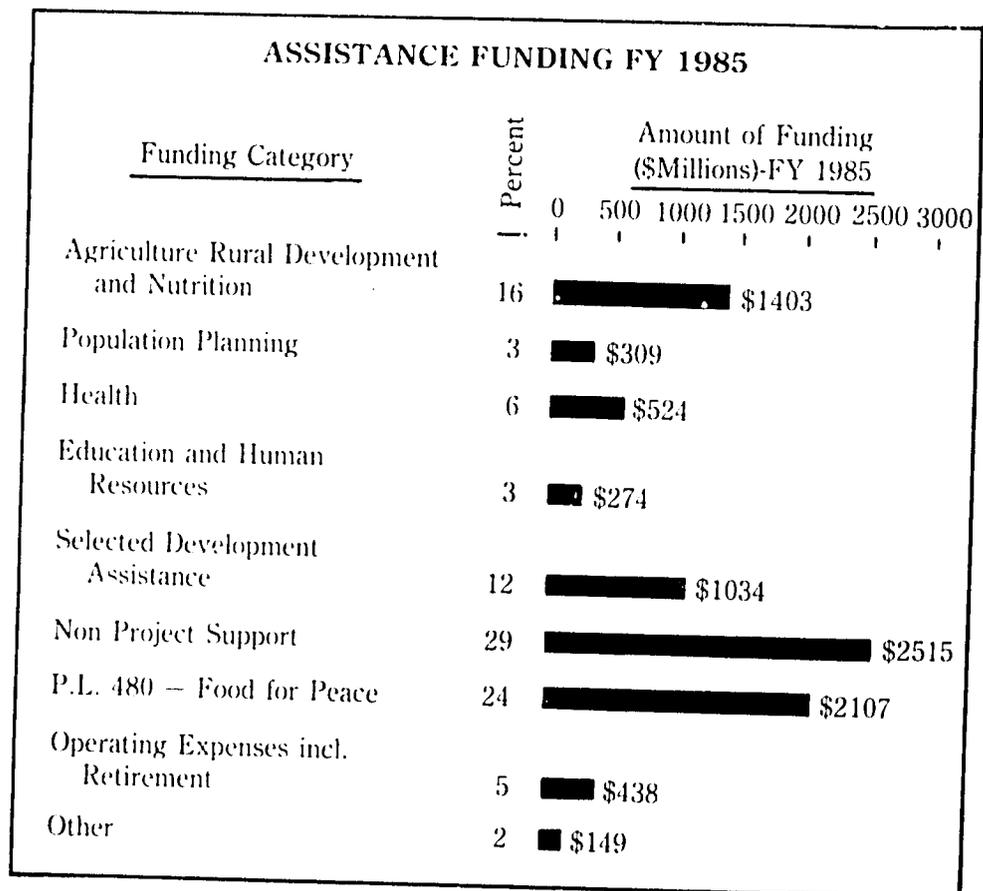
A "lessons learned" was issued detailing deficiencies in mail handling procedure, mail room access, structural and storage weaknesses and errors in reporting mission losses. Prompt action, including a complete remodeling of the mail room, has cut losses to a minimum.

**AUDIT
RESPONSIBILITIES**

OFFICE OF AUDIT

The Office of the Assistant Inspector General for Audit (AIG/A) is responsible for conducting audits of AID's worldwide activities. These activities assist developing countries in meeting the basic human needs of their people through sustained, broadly-based economic growth. The programs and projects funded by the Agency can generally be grouped into six major categories: Agriculture, Rural Development and Nutrition; Health; Population Planning; Education and Human Resources; Selected Development Activities; and Non-Project Assistance which includes Cash Grants and Commodity Import Programs. A major program category not funded by AID is Public Law 480 - Commodity Exports. Though this program category is funded by the Department of Agriculture, AID has been assigned responsibilities for certain aspects of its administration. In addition, the IG performs audits of the Agency's missions/facilities' operations, programs/systems reviews and mandated subjects.

In fiscal year 1985 the Agency's economic assistance budget is estimated to be \$6.6 billion, of which \$2.4 billion will be provided from the Development Assistance appropriation and \$4.2 billion from the Economic Support Fund appropriation. In addition, funding for PL 480 in fiscal year 1985 is estimated at \$2.1 billion. The following bar graph illustrates the composition of this assistance:



**AUDIT
ACCOMPLISHMENTS**

During this semiannual reporting period, the Office of Inspector General's and other governmental audit organizations' audit reports of AID programs and administration were instrumental in recovering or reprogramming significant sums of funds and in identifying possible waste, program abuse and noncompliance with established policies and regulations.

The AIG/A issued 66 reports internally and processed 73 reports performed by other government audit organizations during this reporting period. These reports identified economy and efficiency savings of \$42.0 million, questioned the validity of \$3.5 million in costs that had been incurred by the Agency, and identified \$2.2 million which should be reprogrammed through deobligation of funds.

Through our Audit Followup and Closure system, action taken on audit reports issued during this and prior reporting periods was monitored by the IG's office. Highlights of Agency actions taken on IG recommendations during this period follow:

- Agency management reached determinations on \$23,237,408 in recoveries and deobligations recommended by IG audit reports. Of this total, \$16,310,001 or 70 percent was sustained by the Agency.
- Agency management reached determinations on \$988,455 in recoveries recommended by other governmental agencies' audit reports. Recommended recoveries of \$403,512 or 41 percent were sustained.
- A total of \$15,569,922 (IG) and \$158,944 (other audit agencies) was recovered or deobligated as a result of audit work in this and prior periods.
- On September 30, 1985, \$26.2 million in recommended recoveries or deobligations were awaiting Agency determination, of which \$22.4 million represented recommendations in excess of six-months old.
- On September 30, 1985, \$7.8 million in recoveries was sustained by the Agency but awaiting collection, of which \$7.7 million represented recommendations in excess of six-months old.

**AGENCY RECOVERS
OVER \$15.7 MILLION
THIS PERIOD AS A
RESULT OF
PRIOR AUDIT
RECOMMENDATIONS**

REVIEW OF MAJOR MANAGEMENT SYSTEMS/PROGRAMS

REVIEWS OF THE EFFICIENCY AND EFFECTIVENESS OF MAJOR AGENCY-WIDE SYSTEMS AND PROGRAMS

The IG's reviews of major management systems are designed to determine the efficiency and effectiveness of foreign assistance programs or the systems used to administer assistance dollars in a broad, Agency-wide context. Highlights of significant audits performed this reporting period follow:

—CARIBBEAN AND LATIN AMERICAN SCHOLARSHIP PROGRAM—

IMPROVEMENTS IN THE DELIVERY OF PARTICIPANT TRAINING ARE ESSENTIAL TO ACHIEVING PROGRAM GOALS

The Agency has initiated a new \$161 million Caribbean and Latin American Scholarship Program to counteract the dramatic increase in Soviet bloc scholarship activity in the Latin America and the Caribbean Region (Region). Our review of this initiative showed that basic changes in the plans for delivering this training were essential if this goal is to be achieved.

The Caribbean and Latin American Scholarship Program, developed in response to the Kissinger Commission recommendations, was an outgrowth of two earlier regional training projects—the \$7.5 million Caribbean Basin Scholarship Fund (CBSF) and the \$15 million Latin American and Caribbean Regional Training Initiatives Project. These two training projects contributed to development in the Region and helped reverse the trend of declining United States educational assistance to citizens in Latin America and the Caribbean. However, serious deficiencies existed in the delivery systems of both projects which limited their effectiveness. These deficiencies must be fully addressed in the new \$161 million participant training program if it is to succeed.

Our audit showed that the CBSF project was not designed to (1) effectively allocate training funds to counter Soviet bloc training efforts, (2) reach the economically disadvantaged, (3) provide the United States with sufficient recognition for its financial assistance, or (4) increase educational opportunities for undergraduate students to the extent possible. We also identified weaknesses in the Latin America and the Caribbean Regional Training Initiatives Project's selection process and in evaluating program accomplishments for both projects.

We made nine recommendations to improve both the existing training projects and the new \$161 million Caribbean and Latin American Scholarship Initiative. We believe corrective actions on our recommendations are essential to accomplishing AID's participant training goals in the Region—especially, to counteracting the dramatic increase in Soviet bloc scholarship activity. (Report No. O-000-85-15, May 22, 1985)

—PERSONAL SERVICES CONTRACTING PRACTICES—

PERSONAL SERVICES CONTRACTING PRACTICES NEED WELL-DEFINED PROCEDURES

The AIG/A's Regional Office in Honduras made a review of personal service contracts to determine whether the Agency had in place clearly established guidelines, procedures and regulations governing contracts for personal services, and whether Missions were contracting for personal services in accordance with those guidelines. We also verified if contractors were accurately reporting their prior salaries and work experiences to the United States Government.

A personal services contractor (PSC) is an individual whose personal services are contracted for and paid directly by AID. By regulation, personal services contracts establish an "employer-employee" relationship between the individual and AID. It is not intended that PSCs work independently; they are to act at the direction and under the supervision of AID direct-hire employees. PSCs may be American, third-country or host-country nationals; however, our report dealt only with American citizen or resident alien PSCs. Given current restrictions on the number of direct-hire (Foreign Service) employees AID may station abroad, the Agency has resorted increasingly to the use of the PSC employment format to augment its staff capability at overseas Missions. In late 1984, approximately 155 individuals were working in 15 Agency Missions and offices in the Latin America and Caribbean Region under personal services contracts.

Our audit identified a need for well-defined regulations and procedures to govern PSC practices. Such guidance was not readily available to contracting officers and other Agency officials requesting these services. Furthermore, Mission officials were not consistently adhering to what guidance was available, nor were they always exercising sound business judgment or protecting United States Government interests in executing this type of services agreement. We found no indication that any sanctions were being applied for noncompliance with Agency rules and regulations in this area. Certain problems relating to the Federal tax provisions of personal services contracts were also detected in this review.

From the more than 80 PSC files reviewed at the five Missions visited, the basic information required for formal, arms-length negotiations was often absent from the record. For example:

- Standard Form 171 (Personal Qualifications Statement) or its equivalent was not included in 59 PSC files (68 percent of those reviewed), although completion of this document is basic to Federal hiring practices.

- In many cases the office records did not contain either a job description from the technical office ordering the personal services or a Memorandum of Negotiation by the contracting officer responsible for entering into the contractual obligation on behalf of AID.
- Very few files contained evidence that prior salary histories and work experiences had been verified by the Missions when screening PSC candidates.

Our review identified several examples of poor contracting practices including failure to withhold Federal taxes from payments to personal services contractors and other deficiencies symptomatic of an employment system in urgent need of review and corrective action. (Report No. 1-000-85-12, August 20, 1985)

—RESOURCES SUPPORT SERVICES AGREEMENTS—

AGENCY LOSES CONTROL OVER INTERAGENCY PROCUREMENTS

AID establishes Resources Support Services Agreements (RSSAs) with other Federal agencies to procure technical services which supplement the Agency's personnel needs. These agreements are only used to obtain the services of individuals who possess specialized technical skills available only from such Federal agencies. Both the agency requesting technical services (AID) and the participating agency providing the services must comply with Federal laws and Office of Management and Budget (OMB) Circular A-76 governing this method of procurement.

We made an audit to evaluate whether AID's use of RSSAs was in compliance with the Foreign Assistance Act (FAA), OMB Circular A-76 and implementing Agency regulations. Particular emphasis was given to the Agency's RSSAs with the United States Department of Agriculture (USDA) Graduate School. During fiscal years 1982 through 1984, AID had disbursed \$11 million to the USDA Graduate School under RSSA arrangements.

Our audit showed that, beginning in fiscal year 1981 and continuing through early fiscal year 1985, AID violated, on a continuing and large scale, the provisions of Federal law, OMB Circular A-76 and the Agency's own regulations. None of the Agency's systems of internal control in the management offices responsible for the contract administration and financial aspects of the Agency's procurement operations performed their intended functions of detecting and correcting the significant violations discussed in this report. The audit reports a total breakdown of some of the Agency's most basic management controls and describes the Agency's lapse in management oversight responsibilities over a period of several years.

Specifically, our review of the RSSAs with the USDA Graduate School showed that the Agency:

- Instead of obtaining technical services, routinely procured clerical and general office administrative services, office equipment and even established a separate and distinct office within the AID organization.
- Frequently recruited and selected personnel for the Graduate School to hire or contract to perform the technical services requested.
- Procured services from individuals who were neither excess capacity of another Federal agency nor particularly suited to the USDA Graduate School's mission; rather these individuals were specifically contracted for from the private sector by the Graduate School to meet AID's needs.
- Routinely approved excessive salaries (up to \$870 a day), the purchase of equipment, payment for entertainment expenses, and retroactive authorization of work.

The underlying cause of the problems found in AID's administration of RSSA's with the Graduate School was the almost total loss of control by Agency contract management staff over the agreements executed between AID program officials and the Graduate School. The lack of oversight of these agreements resulted in AID program officials obtaining almost blanket procurement authority with no assurances of compliance with governing directives by contract management staff.

Our report concluded that the Agency should no longer do business with the Graduate School under a RSSA arrangement. We recommended that a formal plan be developed for an orderly and prompt termination of all RSSAs that do not fall within the definition of the education and training mission of the Graduate School.

We also recommended that all procurements to date be reviewed and all equipment purchased be inventoried, identified as AID property, and returned to AID if not justified for use on current "technical services" agreements. Further, all unallowable costs, such as entertainment, be identified and associated costs be refunded by the Graduate School. (Report No. 0-000-85-20, September 27, 1985)

**—MONITORING AND CONTROL OVER DOLLAR AND
LOCAL CURRENCY RESOURCES UNDER ECONOMIC
SUPPORT FUND AND PUBLIC LAW 480, TITLE I
PROGRAMS—**

**LOCAL CURRENCY
GENERATIONS FROM
\$930 MILLION IN
LOANS AND GRANTS
REVIEWED**

The Regional Inspector General's Office in Tegucigalpa, Honduras conducted three reviews of the Agency's monitoring and control over dollars and local country currencies generated under the Economic Support Fund (ESF) and Public Law (PL) 480 Programs. These reviews were conducted in the Dominican Republic, Costa Rica and Jamaica. AID had disbursed \$326 million, \$214 million and \$390 million, respectively, under these two Programs at the time of our reviews. The associated Governments undertook the above Agency Programs in order to provide balance of payments support and to promote financial stability and economic recovery in their countries.

Our review was made to determine the adequacy of controls and monitoring over the resources provided by AID, and over the local currencies generated by those resources. We identified deficiencies that could be attributed to the respective Governments' apparent laxness in submitting reports, complying with Program requirements, as well as, insufficient monitoring by the Missions. Our findings and recommendations, summarized by Mission, follow.

Dominican Republic

In the Dominican Republic, we detected two problems in the use of exchange rates.

- The Central Bank incorrectly included bank service charges through the conversion rates used on \$50 million in grants being supplied by the United States. The correction of this problem generated additional local currencies totaling \$2.4 million.
- Also, the official exchange rate of one peso to one dollar, rather than the market exchange rate, was used to convert dollar deposits to local currency generations. The use of the parallel market rate (officially sanctioned rate for most commercial transactions) of 2.8 pesos to one dollar would generate an additional \$9 million.

As a result of this review, the IG recommended that the Mission obtain legal assistance from AID's General Counsel on identifying the highest legal exchange rate for converting foreign assistance dollars to local currency. (Report No. 1-517-85-11, August 13, 1985)

Costa Rica

In Costa Rica the IG review resulted in the establishment of a price checking unit to verify import and export transactions to deter potential capital flight. The review also highlighted the delinquency of over \$2 million of deposits on PL 480, Title I sales proceeds. As a result of this review, the IG proposed improvements in future PL 480, Title I Sales Agreements which will tighten controls over deposits of sales proceeds and impose penalties for making late deposits of these proceeds. (Report No. 1-515-85-8, June 21, 1985)

Jamaica

In Jamaica required reports on local currency transactions, due the the Mission from the Jamaican Government, were from two to nineteen months past due and other required reports had never been received. We recommended that the Mission establish a checklist system and written notice procedures to alert project managers and Government officials when required reports are due. Such procedures should improve project accountability and management. (Report No. 1-532-85-10, August 12, 1985)

General Findings

In Jamaica and Costa Rica, proceeds from the sales of PL 480 agriculture commodities of \$70 and \$63 million, respectively, were not promptly deposited and not deposited in interest-bearing accounts. When deposited in a timely manner, we estimate interest earnings to be over \$25 million on these programs. We recommended that future PL 480, Title I loan agreements include time limits governing the deposit of sales proceeds and interest-bearing accounts be established for proceeds from the sales of PL 480 commodities.

—PRIVATE SECTOR SUPPORT PROGRAM AND PUBLIC LAW 480 LOCAL CURRENCY GENERATIONS/EL SALVADOR—

Due to a sharp decline in the Salvadoran economy caused by civil war, AID and the Government of El Salvador agreed, in December 1980, to implement a Private Sector Support Program (Program). The objectives of the Program were to improve El Salvador's balance-of-payments crisis, strengthen the private sector by providing foreign exchange resources for the importation of essential commodities, and help restore economic stability. By December 31, 1984, the Agency had obligated \$430 million under this program of which \$400 million had been disbursed to the Government of El Salvador.

**EL SALVADOR
PRIVATE SECTOR
SUPPORT PROGRAM
MAKES PROGRESS
BUT IMPROVEMENTS
ARE NEEDED**

We found the Program to be successful in helping to stabilize the Salvadoran economy. The decline in real economic growth which started in 1979 was arrested in 1983 and in 1984 an estimated positive growth rate of 1.5 percent was achieved.

Our audit of the Mission's management and administration of this extremely large and sensitive economic recovery program showed that the Mission had been quite effective in monitoring and directing the Program's success. Although the Program has been quite successful, our review showed certain improvements could be made to correct deficiencies in the management of Public Law 480 and Economic Support Fund local currencies. Specifically, we found that:

- Government of El Salvador sales agents (banks) had not promptly deposited PL 480 commodity sales proceeds into special accounts.
- Sales agents had retained interest earned on credit sales.
- The Central Election Council had used some ESF counterpart funds for ineligible purposes.
- ESF and PL 480 local currency bank accounts had not been reconciled.

The audit report contained eleven recommendations to improve management of the Program. Corrective actions are being implemented by the Mission on all recommendations. (Report No. 1-519-85-13, September 26, 1985)

AUDITS OF AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION

**AGRICULTURE,
RURAL
DEVELOPMENT AND
NUTRITION PROGRAM
OBLIGATIONS TOTAL
\$6.6 BILLION**

Agriculture Rural Development and Nutrition is the Agency's largest program category, both in terms of assistance dollars and number of projects. Through September 30, 1984, the Agency had obligated \$6.6 billion for 725 active projects of which \$3.7 billion had been expended. Projects in this category are designed to increase agricultural yields, improve diets and support agricultural research in developing countries where hunger and malnutrition are a major development problem.

Our audits in this area reviewed the integrity of AID's administration of these projects and whether improvements in the management of project activities had been accomplished. Highlights of audits performed during this reporting period follow:

**—RURAL ROADS IMPROVEMENT
PROJECT/MAURITANIA—**

The purpose of the Rural Roads Improvement Project, approved in 1982 for \$6.5 million in AID funding, was to complete 209 kilometers (km) of road in southwestern Mauritania. As of February 1985, only 50 km had been completed and 45 km had been partially constructed. The Agency's Mission in Mauritania (Mission) was requesting an additional \$14 million from the Africa Bureau of AID to complete the road.

**MAURITANIA ROAD
PROJECT FUNDS
REDUCED BY
\$8 MILLION**

Our audit showed the Mission request for additional funds was not supported because (1) the project was not economically justified, (2) adequate road maintenance was not assured, and (3) construction of the road link with the national road network was uncertain. We advised the Mission of our findings in March 1985. Nevertheless, the Mission sought approval for additional funding from the Africa Bureau. The Mission recognized the project was not cost effective, but believed the road was a necessary precondition to development in southwestern Mauritania.

Our audit also showed that the Mission did not effectively monitor the project because staff capability and continuity were lacking, communications between the host government and the contractor were poor, and controls over project costs were inadequate. In our view, Mission management contributed to the project's limited progress and to the escalation of construction costs.



Road Maintenance Crews Cannot Keep the Project Road Cleared of Drifting Sands in Mauritania

The U.S. technical assistance contractor supervising road construction did not provide adequate staffing, equipment, maintenance, and training of local personnel. While some of these problems were outside the contractor's control, many stemmed from the Mission not holding the contractor accountable for performance. A contributing factor was that the cost plus fixed fee contract between the Agency and the contractor provided no incentive for timely performance. Although we noted some strengthening of contractor performance, substantially more improvement was needed.

We recommended the Africa Bureau and Mission management not fund the additional \$14 million for the Rural Roads Improvement Project. Also, any new funding options approved as a result of further study for road construction should be justified for (1) cost effectiveness, (2) assurance of adequate maintenance, and (3) adequate linkage with the existing road network in Mauritania. The report also recommended significant improvements in Mission management and contractor performance.

On March 25, 1985, subsequent to our audit field work, the Africa Bureau did not approve the Mission request. The Director of the Office of Sahel and West Africa stated that the Assistant Administrator's decision not to approve the \$14 million request was made independent of, but consistent with, our audit recommendation. After studying various options, the Africa Bureau did approve a \$6 million supplement. The new design allows for lower design standards and correspondingly lower costs. Construction is to be completed by October 1986, and, with three years maintenance, the project has been extended to 1989.

In responding to our draft report, the Africa Bureau and the Mission outlined actions justifying the \$6 million additional funding. These actions included (1) a new economic justification, (2) clarification with the Government of Mauritania about the need for assured road maintenance and linkage with the existing road network, and (3) inclusion of conditions precedent in a new grant agreement to assure the host government proceeds diligently. Additionally, the Mission indicated it was implementing better controls over project management and contractor performance.

We consider the Agency's proposed course of action responsive to the report's recommendations and consider them resolved. However, the actions planned are ambitious and only with concerted effort can the serious problems facing this project be satisfactorily corrected. Because of these difficulties, we have asked the Africa Bureau to closely monitor the actions taken by the Mission. (Report No. 7-682-85-9, July 12, 1985)

**—REVIEW OF SELECTED AGRICULTURE SECTOR
PROJECTS/REGIONAL DEVELOPMENT OFFICE,
CARIBBEAN—**

**IMPROVEMENTS
NEEDED IN
CARIBBEAN
REGIONAL
AGRICULTURE
PROJECTS**

Four of the nine active projects in the Regional Development Office/Caribbean (RDO/C) agriculture portfolio were reviewed to assess the projects' prospects for success, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with Agency requirements. RDO/C's cash advance management and monitoring of counterpart contributions were also evaluated.

The projects reviewed included:

- The Regional Agribusiness Development Project—provides loans to enterprises that expand or stabilize the market for small farmer produce, reduce small farmer production costs, or increase rural employment opportunities.
- The Caribbean Agricultural Extension Phase II Project—aims to increase the effectiveness of eight national extension services and to increase the effectiveness of certain regional institutions involved in extension.
- The St. Lucia Agriculture Structural Adjustment—includes land tilling, market promotion, and banana replanting activities.
- The Farming Systems Research and Development Project—develops, tests, and disseminates improved farming technologies, and strengthens the Caribbean Agricultural Research and Development Institute so that it can sustain a farming systems program as well as its other research programs.

The audit identified two subloans made under the Regional Agribusiness Development Project which were not meeting intended objectives. We recommended that the remaining resources for the citrus production sub-project in Dominica be used for other project purposes and required evaluations be made to monitor project results.

The other three projects reviewed were generally proceeding smoothly, although some problems were experienced in implementing certain components. We found that:

- An automated information system funded by the St. Lucia Agriculture Structural Adjustment Project was not operational and could not provide essential information on project activities. We recommended that the Banana Growers' Association

demonstrate commitment to developing the automated system, as a prerequisite to reprogramming project funds for further development.

- One of the Regional Agribusiness Development sub-projects—a loan program for sugar farmers in St. Vincent—contained deficiencies in loan approvals, collateral requirements, loan repayments, and record keeping. We recommended that the program be suspended until appropriate control procedures are established.
- The accounting system funded by the Farming Systems Research and Development Project was generally sound, but improvements were needed in accounting for advances and ensuring that established procedures were followed. We recommended that the accounting manual be modified, additional guidance be provided to project employees, periodic payment verifications be made, and questioned costs be supported or recovered.

Review of cash advances and counterpart contribution management showed that RDO/C's advance management practices did not comply with AID requirements, and outstanding cash advance reports overstated some projects' cash requirements. Also, in some cases, RDO/C project officers did not know whether required counterpart contributions had been made.

We recommended that RDO/C improve controls over cash advances and require borrowers/grantees to submit periodic reports on counterpart contributions to projects. (Report No. 1-538-85-9, July 31, 1985)

—REVIEW OF FOOD AND NUTRITION PROJECTS/SOMALIA—

EFFECTIVENESS OF SOMALIA'S FOOD AND NUTRITION PROGRAM REMAINS IN JEOPARDY

The Agency's program in Somalia is directed primarily at increasing agriculture production. The AID Mission in Somalia had, as of our review, a food and nutrition project portfolio consisting of five projects. Three of the five projects are multidonor-financed. As of December 31, 1984, the estimated cost of these projects was approximately \$167 million, of which the Agency was to finance approximately \$59 million. Through December 31, 1984, AID had spent \$29.5 million on these projects.

The audit showed that the Mission has experienced a difficult time implementing the project agreements because of major design defects, problems with multidonor coordination and lack of Government of

Somalia capability to provide the financial and management support needed by the projects. As a result, all projects are behind schedule and many planned accomplishments have not been achieved.

We found that the Mission had not established adequate controls over commodities or participant training. Further, recurring cost difficulties could be a future problem because the Government of Somalia is close to bankruptcy. Recurrent costs are defined as those costs that recur throughout a projects' life, as opposed to capital, or fixed costs, which are concentrated at the beginning of the projects' life. Even with a large Commodity Import Program and the Public Law 480 Commodity Sales Program generating hundreds of millions in local currency, the projects still lack adequate local currency support.

Recommendations were made to address the specific problems in commodity control, participant training and recurring costs. (Report No. 3-649-85-14, June 19, 1985)

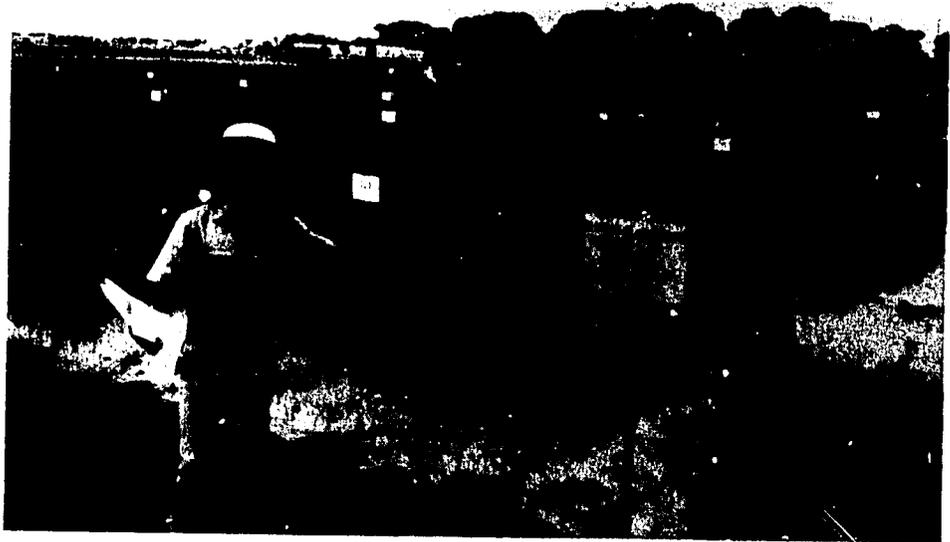
—WEST AFRICA RICE DEVELOPMENT PROGRAM—

The West Africa Rice Development Association (Association) consists of 16 member countries formed to promote rice development and trade through regional cooperation. Since 1975, the Agency has provided \$18.7 million in funding to the Association for two projects with the purpose of (1) developing new high-yielding rice varieties, (2) developing associated agricultural practices and (3) seeking the adoption of these varieties and practices by West African farmers.

Although several high-yielding rice varieties have been identified through research and field trials at the project's two Agency-supported research stations, our audit disclosed three problems which have limited the overall success of the projects.

First, we found that project activities were impaired because the project's research stations did not receive adequate administrative support from the Association. Shortages in cash contributed by member countries drained cash advances and the Association has not been able to adequately finance operations. For example, in 1983, contributions totaled about \$1 million while expenditures amounted to approximately \$2 million. This shortfall has adversely affected the efficiency of Association activities, including those of the AID-funded projects. Much of the work scheduled at the research stations has not been performed due to recurrent failures in services such as water and electricity, and lack of equipment and fuels. An Agency evaluation in 1984 noted that the lack of adequate pumping facilities and fuel at one station delayed research and had contributed to the loss of research crops in 1983 and 1984.

**RICE PROJECT'S
SUCCESS LIMITED
DUE TO PROBLEMS IN
ADMINISTRATIVE
SUPPORT AND IN
MEASURING
PROJECT'S SUCCESS**



Irrigated Rice Plots at Research Station Where New High-Yielding Rice Varieties Are Being Developed

Second, our review showed that efforts to seek adoption of high-yielding rice varieties and agricultural practices by small farmers could not be assessed. This assessment could not be made because an effective system to measure project impact has not been established. As a result, the Agency has obligated over \$18 million for objectives which to date cannot be measured as to their success.

Finally, our review noted that the Agency's Mission in Liberia advanced about \$400,000 to the Association which was not used as agreed. This occurred because expenditure vouchers were not submitted on time and the Association did not maintain a separate bank account for Agency funds. Strong controls over Agency advances are especially critical due to the Association's cash position discussed previously.

We recommended that the Agency's Africa Bureau, in concert with the Mission in Liberia (1) design and implement a plan to ensure the Association provides effective administrative support to the Agency-supported research stations and training center, (2) reassess the project to reflect what can realistically be achieved, and (3) require the Association to furnish timely expenditure vouchers and maintain a separate bank account for Agency funds. (Report No. 7-698-85-6, April 30, 1985)

AUDITS OF SELECTED DEVELOPMENT ACTIVITIES

As the Agency's second largest program category, 378 Development Activity projects had been initiated by the Agency with obligations totaling \$3.0 billion through September 30, 1984, of which \$1.9 billion had been expended. Projects in this category address cross-sectoral development problems. These projects are also designed to implement such Agency priorities as: promoting the private sector's role in development; policy dialogue; institution building; and technology transfer.

**AGENCY'S SELECTED
DEVELOPMENT
ACTIVITIES
PROGRAM HAS
OBLIGATIONS OF
\$3.0 BILLION**

The Regional Inspector General in Cairo issued a significant audit in this reporting period concerning two Agency-financed cement plant projects in Egypt. The audit was made to determine if the project's primary objectives of reducing Egypt's currency outlays for cement and establishing a private sector venture were achieved. Highlights of this audit follow:

—SUEZ AND QUATTAMIA CEMENT PLANT PROJECTS/EGYPT—

Egypt has imported large quantities of cement each year since about 1976. Annual cement consumption has increased by about seven million tons during the period from 1977 to 1984 while Egypt's annual domestic production has increased by only one million tons. To address this import/export imbalance, AID contributed \$195 million of approximately \$370 million needed to construct two cement plants in Egypt. The combined annual cement production of 2.4 million tons from the two AID-financed plants, when the plants reach full production, will make an important contribution to alleviating Egypt's balance of payments deficit. Also, the required divestiture of the company's common stock, currently held by the public sector, will enhance private sector participation in Egypt's economy. The cement plant projects are managed by the Suez Cement Company (SCC), a private sector company established under Egyptian legislation to encourage foreign investment.

**LIMITED BENEFITS
OBTAINED FROM A
\$370 MILLION
CEMENT PROJECT**

Our review of these two projects showed that after the expenditure of \$195 million of AID financing and over \$175 million of other funds, the SCC has yet to become a viable private sector cement producing company. Consequently, foreign currency outlays have not been reduced as planned. The cement plants have not reached production goals and domestic cement sales by the SCC have yet to materialize. Further, the cement companies viability as a private sector venture remains in jeopardy because 90 percent of the stock is still owned by 14 public sector companies.

As of our review, the SCC had experienced many financial and operational difficulties which affected its capability to produce cement. SCC's long-term debt has not allowed a positive cash flow to meet short-term operating needs. Also, technical problems have prevented the plant from becoming fully operational and meeting cement production goals.

Agency project agreements included provisions for offering, at the time of original issue, up to 20 percent of the common stock to private sector owners and a plan for subsequent divestiture of a major portion of the 80 percent of the publicly held stock. At the time of our audit, however, 90 percent of the SCC stock remained in the public sector. Also, the Government of Egypt controls both the selling price of fuel and cement. With production costs and selling prices under government control, SCC may not be an attractive investment and therefore may not be able to sell stock to the public and become a private sector enterprise.

In order to ensure accomplishment of the projects' objectives, project planners placed critical conditions on the disbursement of funds. Conditions relating to pricing and divestiture, however, were either not sufficiently developed during the planning process or were not effectively monitored for compliance by the Agency's Mission in Egypt. As a result, the success of the project as originally designed remains questionable.

We recommended that the Mission, in cooperation with the Government of Egypt, and prior to additional Agency funding, assess whether the success of SCC as a private sector venture is currently a viable objective. If determined viable, we recommended additional actions to ensure the divestiture of stock to the public and the establishment of equitable energy and cement pricing. The Mission should also negotiate with the Government of Egypt and the SCC to resolve debt to equity problems, including possible rescheduling of the SCC's long-term debt, and ensure that the SCC establishes a plan to correct technical operational problems. (Report No. 6-263-85-8, September 18, 1985)

AUDITS OF PUBLIC LAW 480— FOOD FOR PEACE PROGRAM

AGENCY'S GOAL IS TO LINK FOOD AID TO LONG-TERM ECONOMIC GROWTH IN DEVELOPING COUNTRIES

In administering the Public Law 480—Food for Peace Program, the Agency's primary objective is to ensure that food aid is provided to those countries and people that are truly in need. In order to increase the developmental impact of this Program, the Agency has established as its goal, the linking of food aid to long-term economic growth of

a developing country. Funding for this Program is estimated at \$2.1 billion for fiscal year 1985 and will provide food assistance to approximately 72 countries.

In a significant audit performed this reporting period, the Regional Inspector General for Audit in Dakar, Senegal reviewed the Public Law 480, Title I Program in Liberia. The audit focused on the Program's effectiveness in contributing to Liberia's development programs and self-help measures, and on Liberia's compliance with Agency and Program requirements. Highlights of this audit follow:

—PUBLIC LAW 480, TITLE I PROGRAM/LIBERIA—

The Public Law (PL) 480 Title I Program in Liberia began August 1980 in response to Liberia's need for budgetary and balance of payment support and to the country's 1979 rice riots. Over the past five years, the Program has authorized the sale of U.S. rice valued at \$65 million on concessional terms. The Program's objectives are to provide sufficient quantities of rice to meet Liberia's food deficits, while at the same time generating money from rice sales to finance operating costs of specified development projects.

SIGNIFICANT PROBLEMS IDENTIFIED IN LIBERIA PL 480 COMMODITY SALES

The Government of Liberia substantially complied with the agreement in the early Program years. Since 1982, however, serious cash liquidity and economic problems have caused a shortfall in the PL 480 account. The shortfall totaled about \$16.5 million as of March 1985 and has caused problems in Liberia's development projects which were dependent on PL 480 proceeds. We found that the Government of Liberia's agent responsible for PL 480, Title I sales transferred about \$1.1 million in rice to government organizations without requiring payment, and had accounts receivable of \$14.4 million due from credit sales, of which about \$7.4 million was considered uncollectable. The Government of Liberia also failed to submit required reports on self-help measures taken pursuant to the PL 480, Title I agreements.

To ensure the Government of Liberia's compliance with the agreements, we recommended that the Agency not award additional PL 480, Title I assistance until the Government of Liberia reestablishes the special account and deposits the outstanding sales proceeds. We also recommended that the Agency's Mission in Liberia exercise greater control over future PL 480 programs. These recommendations concern releases from the special account, government credit and sales policies, and inventory control procedures. (Report No. 7-669-85-8, May 24, 1985)

REVIEW OF INTERNATIONAL DISASTER ASSISTANCE

**DISASTER PROGRAM
PROVIDES
ASSISTANCE TO SAVE
LIVES AND
PROPERTY AND TO
REDUCE SUFFERING
CAUSED BY DISASTER**

The objective of the International Disaster Assistance Program is to save lives and property and to reduce suffering in foreign countries which are stricken or threatened by disaster. Immediate and effective relief is the Agency's primary goal in disaster assistance. The Office of U.S. Foreign Disaster Assistance responded to 41 disasters in fiscal year 1984, 11 of which were related to the food shortages in Africa. Funding for this program is estimated at \$50 million for fiscal year 1985.

In a significant audit performed this reporting period, the Regional Inspector General for Audit in Manila, Philippines reviewed the disaster relief provided to the Philippine National Electrification Administration. The audit was performed to determine the adequacy of accountability and controls over disaster assistance funds and whether funds were spent for authorized purposes. Timely action on our recommendations by the Agency's Mission in the Philippines resulted in savings totaling over \$400,000. Highlights of this audit follow:

—DISASTER RELIEF ASSISTANCE/PHILIPPINES—

**OVER \$400,000 IN
DISASTER
ASSISTANCE
QUESTIONED DUE TO
EXCESS
PROCUREMENT AND
FALSE
DOCUMENTATION BY
GRANTEE**

In September and November 1984, the Philippines sustained extensive damage to its electric lines from two typhoons. To assist in rehabilitating the damaged lines, the Agency provided disaster relief funds totaling \$1.45 million to the Philippines National Electrification Administration (NEA).

The NEA implements the Philippine National Rural Electrification Program by organizing, financing, and regulating rural electric cooperatives. As the parent agency of the cooperatives, NEA submitted cost estimates to the Agency's Mission in Manila for repair of the damaged lines. The estimates provided for assistance to 23 cooperatives through the purchase of 11,424 replacement telephone poles. NEA ordered the poles and submitted vouchers, covering their cost and transportation, to the Mission for processing and direct payment to the suppliers.

Our review showed that NEA's estimates of the cost per telephone pole were overstated and that actually 22,096 poles were procured and billed to the Mission. However, about half of these poles were not needed to rehabilitate the damaged electric lines of the 23 cooperatives. According to cooperative records and information provided by NEA, the 10,672 poles in excess of those authorized were accounted for as follows:

- Forty-seven percent of the poles were shipped to cooperatives that did not have damaged electrical lines and, thus, did not need the poles.
- Twenty-eight percent were shipped to cooperatives in areas not affected by the typhoons or not authorized to receive disaster assistance.
- Nine percent of the poles were shipped to cooperatives located in areas which were affected by the typhoons, but not authorized to receive disaster assistance.
- Sixteen percent were rejected for poor quality and were not shipped.

We recommended that the Mission recover \$305,146 from NEA for the cost and transportation of the excess poles.



Excess Telephone Poles Purchased With Disaster Assistance Funds Are "Stored" at An Electric Cooperative On Cebu, Philippines

Our audit also showed that 26 of the 51 vouchers submitted by NEA and paid by the Mission were supported by false documents. For example, 32 of the 88 receiving reports submitted to the Mission in support of the vouchers were false. All except one of the 23 cooperatives signed false receiving reports. Officials from 18 of the 22 cooperatives that prepared false receiving reports told us they did so at NEA's request. We believe this false documentation was submitted by NEA

in order to give the appearance that all poles purchased were needed for rehabilitation.

Based on the above, we recommended that the Mission stop payment on the final vouchers submitted by NEA totaling \$108,441. The Assistant Inspector General's Office of Investigations is reviewing our information concerning the false vouchers for possible further action. (Report No. 2-492-85-6, September 18, 1985)

PREAWARD CONTRACT/GRANT REVIEWS

PREAWARD REVIEWS REVEAL POTENTIAL PROBLEM AREAS BEFORE CONTRACTS ARE AWARDED

During the last six months of fiscal year 1985, we issued several significant preaward reviews of contracts and grants. Preaward reviews are vitally important to the Agency because they usually reduce estimated costs and identify potential problem areas before contracts/grants are awarded. During this reporting period we performed 30 preaward reviews. Six of these reviews resulted in reductions in proposed costs amounting to \$6.4 million.

AUDIT RECOMMENDATIONS, FOLLOW-UP AND RESOLUTION

—COMPARISON OF STATUS OF OPEN RECOMMENDATIONS—

OPEN RECOMMENDATIONS IN EXCESS OF SIX MONTHS

Although the total number of open recommendations at the end of the reporting period decreased by 20 percent (272 to 217) from the prior period, the number of recommendations open in excess of six months increased by 35 percent (86 to 116) from the prior period.

Total Open Recommendations			
Six-Month Period Ended	Open Less Than Six Months	Open More Than Six Months	Total Open
March 31, 1983	230	197	427
September 30, 1983	207	145	352
March 31, 1984	90	131	221
September 30, 1984	150	81	231
March 31, 1985	186	86	272
September 30, 1985	101	116	217

**—COMPARISON OF STATUS OF OPEN
RECOMMENDATIONS OVER SIX MONTHS OLD—**

Office of Management and Budget Circular A-50 requires that 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 increased by 30 between March 31, 1985 and September 30, 1985. Violations of the A-50 requirement for resolution also increased during this period from 27 to 56 or by 107 percent.

**AGENCY COMPLIANCE
WITH OMB CIRCULAR
A-50**

Status of Open Recommendations Over Six Months Old			
Six-Month Period Ended	Total	Unresolved, in Violation of Circular A-50	Resolved
March 31, 1983	197	74	123
September 30, 1983	145	58	87
March 31, 1984	131	38	93
September 30, 1984	81	28	53
March 31, 1985	86	27	59
September 30, 1985	116	56	60

**—THE SUPPLEMENTARY BUDGET AND
RECISSION ACT OF 1980—**

The Supplementary Budget and Recission Act of 1980 requires that all monetary audit recommendations be resolved within six months of issuance. As the following schedule shows, the number of audit recommendations in violation of this statute increased by 53 percent from 15 to 23 over the past six months.

**AGENCY COMPLIANCE
WITH PUBLIC LAW
96-304**

Recommendations Unresolved Over Six Months	
Six-Month Period Ended	Unresolved, in Violation of PL 96-304
March 31, 1983	36
September 30, 1983	24
March 31, 1984	19
September 30, 1984	18
March 31, 1985	15
September 30, 1985	23

—OTHER INSPECTOR GENERAL REQUIREMENTS—

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 audit effort of each Regional Inspector General for Audit as a means of evaluating Agency compliance with audit recommendations. In addition, for all recommendations, the IG Office of Policy, Planning, and Oversight 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 Inspector General reviewed 22 closed recommendations, 3 of which had to be reopened.

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.

REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to Agency programs and operations. During the reporting period, the Inspector General reviewed the proposed amendments to the Foreign Assistance Act and proposals set forth by the President's Council on Integrity and Efficiency. Appropriate comments were provided in each instance.

OBTAINING REQUIRED INFORMATION OR ASSISTANCE

Sections 5(a)(5) and 6(b)(2) of the Inspector General Act require the Inspector General to report instances where access to records or assistance requested was unreasonably refused, thus hindering the

ability to conduct audits or investigations. During this semiannual reporting period, there were no reportable instances under these sections of the Act.

STATUS OF PREVIOUSLY HIGHLIGHTED REPORTS

—REPORTS WITH UNRESOLVED RECOMMENDATIONS AS OF SEPTEMBER 30, 1985—

- **Agricultural Development Systems Project/Egypt**

This report demonstrated the lack of contractor management controls over the use of \$5.4 million of dollar and local currency payments. The payments were made to implement programs in research, training and extension to further the development of the agricultural sector in Egypt. One of the original 20 recommendations in this report remains open. This recommendation addresses the requirement that government license plates be affixed to the 17 project vehicles to discourage the vehicles' use for non-project purposes. We are awaiting Agency confirmation on this action. (Report No. 6-263-83-8, August 29, 1983)

**VEHICLE CONTROL
RECOMMENDATION
REMAINS OPEN**

- **Entente Fund/West Africa**

A review of this \$63 million program concluded that overall benefits had been limited. As a result of these limitations, the Agency terminated the Project. Audit recommendations were made to ensure that program assistance already provided would not be wasted. During this reporting period, a significant monetary finding was resolved and over \$600,000 was returned to the Agency by the Entente Fund. The Fund also provided the Agency with justification for other questioned costs. One recommendation, which relates to providing additional assistance and training through an AID-financed senior advisor or consultancies by recognized accounting firms, remains open and is being explored by the Agency. (Report No. 7-625-84-2, May 18, 1984)

**ENTENTE FUND
RECOMMENDATIONS
STILL BEING
EXPLORED BY
AGENCY
MANAGEMENT**

- **Food Assistance through PL 480, Titles I and III/Sudan**

This audit reported that funds generated from the sale of PL 480 commodities were not deposited into a special account and that Government of Sudan accountability reports and management controls were inadequate. Recommendations concerned the tightening of controls and clarification of agreements and regulations in terms of what is required by law. An agreement has not

**SPECIAL ACCOUNT
CONTROLS NEEDED
IN SUDAN**

yet been established on the corrective action that will be undertaken to comply with PL 480 agreements, regulations and laws. (Report No. 3-650-84-14, July 23, 1984)

INACTIVE PROJECT FUNDS OF \$10 MILLION SHOULD BE DEOBLIGATED

- Private Investment Encouragement Fund

The Private Investment Encouragement Fund in Egypt did not become operational because of poor planning, ineffective technical assistance, and a failure by the Government of Egypt to provide agreed project inputs. Although the Agency has deobligated over \$22 million of the Fund, \$10 million still remains in the Fund and should be deobligated. The Agency has initiated negotiations with General Motors of Egypt to use the remaining funds for a loan. A final determination on the course of action has not been made. (Report No. 6-263-84-3, July 26, 1984)

- Agency Compliance With the Federal Managers' Financial Integrity Act

ACTION PLAN PROPOSED TO IMPROVE IMPLEMENTATION OF FMFIA

This review of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) found that the Agency needs to put in place the framework needed to implement the FMFIA. Nine of our 19 recommendations are closed and the Agency has action underway to complete training manuals, distribute videotape instructional aids and complete the compilation of assessable units by the end of October 1985. An action program has been proposed for several of the other remaining recommendations. (Report No. 0-000-85-7, December 7, 1984)

- Participant Training Program

PARTICIPANT TRAINING MANAGEMENT SYSTEM DEVELOPED

A review of the Participant Training Program disclosed a failure to adequately consider whether host countries had sufficient numbers of qualified candidates, an adequate screening process, a system of follow-up on returning trainees, and a comprehensive, up-to-date information system. The Agency is attempting to address these problems through development of a Participant Training Management System which has been installed in the Agency Mission in Panama and is currently being replicated in the El Salvador and Costa Rica Missions. The Participant Training Information System is also being expanded. (Report No. 0-000-85-8, December 7, 1984)

- **Philippine Population Program**

The rapid growth of population in the Philippines is inhibiting the country's economic development. The report showed that the Philippine Government needs to increase funding and political support for this program. One way of achieving program economies and improving operational efficiency is to merge presently separate family planning outreach systems under the Ministry of Health. The Agency questions the assumption that a merger would improve cost-effectiveness and prefers to concentrate primary efforts on improving the overall family planning delivery system. While the issue remains unresolved, the policy dialogue has been communicated to the Philippine Government and merger remains a viable alternative course of action. (Report No. 2-492-85-2, February 7, 1985)

**FAMILY PLANNING
OUTREACH SYSTEMS
SHOULD BE MERGED**

- **Procurement Service Agents**

Procurement Service Agents (PSAs) are generally a viable means of alleviating many host country contracting problems and should be encouraged. Our review showed that greater economy and efficiency could be achieved by requiring Agency Missions to negotiate PSA fees based on cost proposals, improve the selection process, assess host government capabilities before engaging the PSA, and maximize the competitive procurement of these services. The Agency is currently drafting new guidance for the Handbooks on use and selection of PSAs. (Report No. 0-000-85-11, March 21, 1985)

**NEW GUIDANCE
CONCERNING PSA
SELECTION BEING
DRAFTED BY AGENCY**

- **Closeout of Expired Contracts**

Our review of 122 high value AID-direct and host country contracts totaling \$319 million showed that contracts were not being closed out because Agency management placed little importance on this function. We recommended that the Agency establish controls to ensure that (1) closeout actions take place in a timely manner, (2) contractor performance evaluation reports are prepared, (3) a system accounting for AID-funded or furnished property held by contractors is established, (4) contract files are not destroyed or retired until closeout procedures are complete, and (5) an inventory of both AID-direct and host country expired contracts is reconciled periodically with Agency Missions. The Agency is expanding and revising its closeout procedures and will test them on AID/Washington contracts and grants. If this

**IMPROVEMENTS
NEEDED TO ENSURE
THE TIMELY
CLOSEOUT OF
CONTRACTS**

proves successful, the Agency plans to implement these procedures worldwide. The Agency has not taken any action concerning host country contracts. (Report No. 0-000-85-14, March 29, 1985)

**—REPORTS IN WHICH RECOMMENDATIONS ARE
RESOLVED BUT ARE PENDING COMPLETION OF
CORRECTIVE ACTION AS OF SEPTEMBER 30,
1985—**

**REVISION OF
HANDBOOK 11
UNDER
CONSIDERATION**

- Nonformal Education for Women Project/Morocco

This \$4.3 million development training project to benefit women contained serious design problems and host country contracting problems. 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. A committee was established in May 1983 to draft additional guidance for AID Handbook 11 concerning participants. A consensus on language has emerged, but the major issue remains whether the proposed provisions would be mandatory or optional for inclusion as host country contract provisions. (Report No. 0-608-82-47, February 22, 1982)

**BILL OF COLLECTION
NEEDS TO BE ISSUED**

- Crop Protection Project/Philippines

A review of \$2.2 million in procurement for this Project identified serious defects in bidding, documentation, receipt, delivery and utilization of goods. Two recommendations remain open. One recommendation awaits issuance of a bill of collection for \$88,000, and the other recommendation requires the delivery of two airboats to another project location. Although the Agency issued a letter requesting collection of \$88,000 on August 6, 1985, an official bill of collection is yet to be issued. Further, a site visit found that the airboats were not operational, and if not deployed shortly, recovery procedures should be considered. (Report No. 2-492-83-5, March 21, 1983)

**COMPLIANCE WITH
SHIPPING
REQUIREMENTS IN
HAITI REMAINS
QUESTIONABLE**

- Road Maintenance Project/Haiti

The only recommendation remaining open from this audit of the Haitian Agricultural Feeder Roads Project concerns non-compliance with shipping requirements. These requirements state that at least 50 percent of the gross tonnage of loan-financed goods must be shipped on U.S. flag vessels. The Agency's Office

of Contract Management has been assembling documents (Letters of Commitment, bills of lading, invoices and vouchers), most of which dated back to 1977 through 1980 and had to be retrieved from the Federal Records Depository, and reported in September 1985 that documents sufficient to determine compliance would be shipped to the Mission in Haiti in October 1985. (Report No. 1-521-83-13, August 25, 1983)

- Citanduy Water and Irrigation Project/Indonesia

In 1976, the Agency approved a \$12.5 million loan to the Government of Indonesia to construct flood control structures and irrigation canals in Central Java. Project site visits revealed obvious maintenance problems with this large capital investment project. Weeds and erosion could take over water intakes and canals without immediate maintenance attention. The AID Mission in Indonesia acted on one of our recommendations and deobligated \$1.7 million in loan funds on August 14, 1985. One final recommendation relating to the transfer of flood control structure operation and maintenance authority remains open pending implementation of a Government of Indonesia draft regulation. (Report No. 2-497-84-3, March 16, 1984)

**\$1.7 MILLION
DEOBLIGATED IN
RESPONSE TO
REPORT
RECOMMENDATION**

- Barangay Water Project/Philippines

The Barangay Water Project authorized loans of \$25.6 million and grants of \$2.5 million to provide 500 potable water systems to Philippine communities not exceeding 10,000 people. The report described the inadequate financial position of most of the cooperatives, as well as the maintenance problems and potentially serious health problems regarding water purity. Three recommendations remain open, one relating to financial and technical assistance, another to ensuring performance of water quality testing, and a third recommending dollar deobligations. The Agency funded an independent technical evaluation which was completed in March 1985 and based on this evaluation promised a final plan of action by April 1985. Additional time has been requested to complete the plan of action. (Report No. 2-492-84-8, September 14, 1984)

**AGENCY ACTION
PLAN OVERDUE ON
BARANGAY WATER
PROJECT**

- Host Country Contracting

This report discusses the Agency's failure to adequately implement a system for evaluating host country procurement capabilities prior to assigning procurement responsibilities for the estimated \$2.5 billion in active host country contracts. Agency responsibilities are diffused and a complete record of all host

**TASK FORCE
CONTINUES TO
REVIEW HOST
COUNTRY
CONTRACTING
PRACTICES**

country contracts is not maintained. A task force study to address these problems and review Handbook guidance in this area has been completed and we are discussing its results with management. We do not believe the actions taken to date by the task force or the Agency are sufficient to close any of the report recommendations at this time. (Report No. 0-000-84-38, September 28, 1984)

**OVER \$1.1 MILLION
REPROGRAMMED FOR
NEW ACTIVITIES**

- Health Management Improvement Project/Jamaica

Agency officials, following audit report recommendations, have identified excess funds resulting from the devaluation of the host country currency and have pinpointed certain areas where funds have been overbudgeted. This resulted in an agreement to reprogram over \$1.1 million for new or revised activities, including approximately \$500,000 for procurement of pharmaceuticals and medical supplies. The recommendations will be closed upon receipt of reprogramming details. (Report No. 1-532-85-3, November 19, 1984)

- Northeast Small Scale Irrigation Project/Thailand

**THAILAND
INCREASES
OPERATIONS AND
MAINTENANCE
BUDGET**

This audit report noted some serious problems involving the Project's operations and maintenance, including washed out main canal walls and weed growth, and recommended that the host government provide adequate operations and maintenance funds. As a result, the host government increased its budget for operations and maintenance from \$56 million in 1984 to \$74 million in 1985 and made a request for Agency operations and maintenance training. These two recommendations remain open pending receipt of documents from the Royal Thai Government. (Report No. 2-493-85-1, November 30, 1984)

- Integrated Livestock Production/Niger

**IG PLANS FOLLOW-UP
TO ASSESS PROJECT
EVALUATION AND
REDESIGN EFFORTS**

This \$17.5 million Project was, during our review in August 1984, at a virtual standstill with only \$900,000 expended when a drought caused the exodus of herders and cattle from the Project area. Our initial recommendation to terminate the Project was later revised to include supporting a major redesign of the Project to bring about agreement with the Government of Niger on Project objectives and include a system for measuring Project objectives. An evaluation which would lead to the redesign was finally started in September 1985 and a field visit is planned by our Regional Office of Audit in Dakar, Senegal to assess progress of the evaluation and the redesign effort. (Report No. 7-683-85-4, February 28, 1985)

- Appropriate Technology International

While there have been improvements in Appropriate Technology International's (ATI) \$16.5 million program of developing appropriate technology for dissemination to developing countries, our review found that the cooperative agreement lacked a definition of replication, specific and measurable objectives and a joint replication strategy for the Agency's Science and Technology (S&T) Bureau and ATI. The S&T Bureau plans to amend the Agreement to provide the requisite definition and develop a joint strategy for inclusion in the next Congressional Presentation. (Report No. 0-000-85-12, March 26, 1985)

**AGENCY PLANS TO
AMEND ATI
AGREEMENT AND
DEVELOP A JOINT
STRATEGY**

OFFICE OF SECURITY

INSPECTOR GENERAL STRESSES SECURITY AWARENESS

The Inspector General has overall responsibility for the Agency's security programs worldwide. Daily operational security management is provided by the Office of the Assistant Inspector General for Security (AIG/SEC). During this six-month reporting period, AIG/SEC placed increased emphasis on security awareness. The office focused on improving employees' awareness in protecting National Security Information and the importance of protecting AID employees and their families abroad.

Limited Official Use

The Hijacking of Flight 221



Office of Security

**INSPECTOR
GENERAL**

U.S. Agency For International Development

Limited Official Use

COVER UNCLASSIFIED
WHEN SEPARATED FROM
BOOKLET

LESSON LEARNED KUWAIT AIRWAYS FLIGHT 221

On December 4, 1984, Kuwait Airways Flight 221, bound for Karachi, was hijacked. Among the passengers were three Agency for International Development auditors. Two of the auditors were killed and a third severely beaten. The AIG/SEC made an indepth analysis of the circumstances surrounding this tragedy in an effort to identify lessons learned and inform United States Government employees on how they might react should they encounter such a situation.

The report, entitled "The Hijacking of Flight 221," describes the incident's actual chronology and, more importantly, advises employees on what they should do or how they should react in the event of a hijacking. The 18-page, administratively controlled, document is being distributed widely throughout the Agency and the Department of State.

The report concludes that AID employees were targets of opportunity and were brutalized because of their positions as United States Government officials. The report asks employees to acknowledge the possibility of a hijacking and encourages participation in available security education programs. The report recommends that employees make arrangements for legal and financial contingencies in the event of such an incident and maintain dignity and self-respect at all times. Also, avoid sitting in aisle seats, carry nothing that is considered provocative or that cannot be explained, and cooperate with and obey hostage-taker's instructions in an effort to avoid physical abuse to the extent possible.

Again, it is hoped that this report will enhance security awareness and better prepare Government employees for the potentialities of a hijacking.

Complementing "The Hijacking of Flight 221" report, AIG/SEC sponsored another hijacking educational effort. The services of a well-known hostage survival expert and former prisoner of war were obtained to develop and present a one-hour briefing to AID officials on the subject of hijacking and hostage survival. The presentation was videotaped and is now being distributed to AID/Washington and overseas facilities. The presentation was well received by the Agency and AID is now requiring all personnel assigned or traveling abroad to attend the video presentation.

The AIG/SEC distributed over 5,000 instructional pamphlets on security awareness to AID employees and contractor personnel overseas. Subjects covered include:

- "40 Ways to Protect Your Home"
- "What You Should Know About Preventing Car Theft"
- "The ABC's Of Self-Protection"
- "30 Ways You Can Prevent Crime"
- "What Every Woman Should Know About Self-Protection".

**HOSTAGE SURVIVAL
TRAINING**

**SECURITY
AWARENESS
PAMPHLETS
DISTRIBUTED TO AID
MISSIONS**

The pamphlets are intended to supplement our ongoing security film and videotape programs and to raise the level of security awareness.

Effective security orientation and awareness training for AID contractors is an area of particular concern to the Office of Security. Agency employees participate in the mandatory, one-day "Coping with Violence Abroad" Seminar, conducted by the Department of State. However, Agency contractors currently receive no formal training prior to their overseas assignments. The Agency fully understands its responsibility of preparing contractors for the threats they may face abroad, but due to limited staffing, we have not been able to provide this orientation and awareness training. We are currently studying this problem and plan to identify a means of providing this service in the future.

AIG/SEC launched an aggressive and informative refresher training program to assist all employees in the proper preparation, handling, and storage of classified material. Thirty training sessions were given to 1,320 Agency employees in Washington, D.C. We plan to videotape the session and distribute the tape to AID Missions abroad.

Additionally, to assist employees in their daily responsibilities to protect classified information, the Office of Security produced and distributed two pamphlets entitled "Classifying National Security Information" and "Marking Requirements."

Copies of all of the cited training materials are available. Written requests should be sent to the Assistant Inspector General for Security, Room 415, (SA-16/RPE), Washington, D.C. 20523.

POST INMAN PANEL ACTIVITIES

The Secretary of State convened an Advisory Panel on Overseas Security. With the cooperation of a wide range of United States Government agencies, the Panel examined issues related to diplomatic security in the United States and overseas. A report was submitted to the Secretary of State and is commonly referred to as the Inman Panel's report. A major recommendation to the Secretary of State included in the report was the consolidation of Department of State, United States Information Agency (USIA) and AID security responsibilities and activities into a proposed Diplomatic Security Service. Both USIA and AID have expressed serious questions on the practicality of this recommendation. At the end of this reporting period, discussions continue with Department of State officials related to AID's and USIA's serious concern over the consolidation recommendation.

During AIG/SEC's participation on the Advisory Panel, a significant number of AID facilities were identified that did not conform to the recently developed security standards. As a result of this review, AID has been participating with the Department of State in the formulation of a security supplemental funding request to fund the correction of the noted security deficiencies. In brief, the supplemental requests the additional security positions and funds necessary to construct several new office buildings, retrofit or upgrade existing buildings and improve residential security, vehicular armoring, and radio communications to support our personnel at AID's most threatened posts.

OVERSEAS SECURITY DIVISION

The Assistant Inspector General and the Division Chief of the Overseas Security Division, through the Interagency Overseas Security Policy Group, have contributed to the formulation of standardized residential security and communications policies. These policies, as well as future policy statements, will be common to the entire United States Government Foreign Service community. A distinct advantage to this unified policy approach is that all overseas posts will adhere to a single, acceptable standard which will improve security for the foreign service community worldwide.

**AIG/SEC MAKES
SIGNIFICANT
CONTRIBUTIONS TO
THE OVERSEAS
SECURITY POLICY
GROUP**

- *Residential.* The Department of State's new residential security policy closely parallels the longstanding AID policy on residential security. It acknowledges an obligation on the part of the United States Government to provide minimum levels of residential security for the three degrees of threat categories, and incorporates the concept of a residential safehaven for areas of extreme risk. We fully support its formulation.
- *Communications.* The Department's new communications policy closely parallels AID's existing policy on the subject. The policy requires each post to maintain a voice radio system with a common frequency dedicated for emergency evacuation and security purposes. Significant to AID and our existing, highly efficient radio program is that individual agencies will retain control and maintain their own equipment. At posts constantly operating under significant threat conditions, the objective is to issue voice radios to all official personnel. At lower threat posts where radios are not available for every employee, a warden system will be established and monitored by the Department of State. Weekly radio tests are acknowledged as critical to the success of the radio effort.

**INCREASED
ATTENTION GIVEN TO
VEHICULAR
DEFENSES**

During the past six months, representatives of AIG/SEC visited 25 Agency facilities throughout the world. The bulk of their activities related to developing public access controls, perimeter defenses, and improving existing radio nets.

Securing AID facilities in recent months has become increasingly difficult, as added emphasis is being placed upon countering the car bomb threat. As a result of the last Beirut bombing incident, security standards have been modified to require a 100-foot setback from points of vehicular traffic. Since most AID facilities are and continue to be short-term leases, it is extremely difficult to find buildings or compounds that can meet this security requirement. In spite of this, several AID facilities are moving to improve their overall security posture. AIG/SEC has also initiated action to formalize AID building security standards into a single document. This project is being coordinated with the Department of State's Physical Security Division.

**DIVISION OF INVESTIGATION AND
DOMESTIC SECURITY**

**IMPLEMENTATION OF
NSDD 145 INITIATED
FOR INFORMATION
TECHNOLOGY
SECURITY PROGRAM**

The National Policy on Telecommunications and Automated Information Security, as published in National Security Decision Directive 145, required AID to review and revise the procedures for security management of this technology. Recent advances in micro-electronics technology have resulted in a significant growth of the telecommunications and information processing services within the United States Government and the private sector. While this growth results in improved efficiency and effectiveness, it also poses significant security challenges because information processing systems are susceptible to interception, unauthorized electronic access, and exploitation.

- *Agency Coordination.* AIG/SEC has been working with the Agency's Information Resources Management Office to develop standards designed to protect unclassified, sensitive information that is processed by information technology systems. The standards will encompass microcomputers, minicomputers, computer mainframe and peripherals, automated word processing equipment, and telecommunications equipment employed in data processing networks. The standards also include requirements that personnel associated with the design, operation, maintenance, or use of the Agency's computer systems and information be subject to suitability investigations. Current plans call for incorporating existing Office of Management and Budget and other Executive Branch directives on automated information and security systems into the AID Handbook on Security. A full-time professional security officer will be required to administer the unique aspects of this program.

- *TEMPEST*. TEMPEST refers to a program of coping with the threat of compromise from electronic emanations (unintentional signals that are generated by or radiated from information processing equipment) which can disclose classified information being processed by that equipment. The Office of Security, in cooperation with the Agency's Information Resources Management Office, is developing procedures to facilitate the installation of TEMPEST-approved word processing equipment that can be used for preparation of classified material. Three offices within AID have been selected, on a trial basis, to receive TEMPEST-approved equipment in the near future. The results of those tests will be used to determine the feasibility of acquiring additional TEMPEST-approved equipment.

The AIG/SEC is revitalizing the contract investigator program. AIG/SEC now has 34 investigators under contract and coverage within the United States has increased significantly. Investigators are now situated in Arizona, California, Colorado, Connecticut, Illinois, Massachusetts, New York, North Carolina, South Carolina, Washington and Washington, D.C. This improved coverage should reduce the response time to complete background investigations and reduce travel expenses, which have increased significantly during the last two years. The Office of Security conducted 58 Background Investigations and 495 National Agency Checks during the past six months.

Congress is presently examining whether too many Americans have access to classified information, particularly in light of recent espionage cases. The Agency is examining who within AID has access to classified information and whether it is feasible to reduce the number of cleared employees and contractors. Concurrently, AIG/SEC is also intensifying the thoroughness of our employee reinvestigation program.

During this reporting period, AIG/SEC forwarded a report of investigation to AID's Office of Personnel for a determination of suitability for continued employment of an AID employee. The employee was convicted of attempting to illegally obtain drugs and sentenced to two years of supervised probation. This represents the first case that AIG/SEC has handled under a recent agreement between AIG/SEC and AIG/I in which AIG/SEC follows up on cases that may not be prosecuted under criminal statutes but which have suitability implications.

Agency facilities and personnel in the Washington metropolitan area remain vulnerable to hostage situations, crimes of violence, and

**PERSONNEL
SECURITY
CONTRACTOR
INVESTIGATION
PROGRAM IS
REVITALIZED**

**WHO NEEDS ACCESS
TO CLASSIFIED
INFORMATION?**

**SPECIAL
INVESTIGATIONS**

**DOMESTIC SECURITY
OPERATIONS FOCUS
ON ACCESS CONTROL
AND EMERGENCY
PROCEDURES**

bomb threats during this reporting period. Continued staffing shortages have caused our security surveys of AID facilities to be behind schedule. Adequate briefings have not been given to our employees concerning emergency situations because only one officer is available to cover nine facilities. A State Department employee was fatally wounded at the Department of State Building (AID occupies approximately 35 percent of this building) earlier this year. A similar incident could occur at any Agency annex. We believe it is imperative that physical security be improved. However, the Agency's personnel constraints prohibit this action. Therefore, in the next six months we will be examining alternatives to provide more security with fewer resources.

During this reporting period, AIG/SEC responded to four telephone bomb threats that were directed against two of our nine buildings. Appropriate coordination and liaison with local and Federal law enforcement agencies was made to facilitate searches of the facilities by Explosive Ordnance Disposal personnel. No explosives or other dangerous materials were found during the searches. Although the four incidents proved to be hoaxes, it became apparent that many Agency personnel are not prepared to cope with this type of emergency situation. In coordination with the Agency's Office of Management Operations, a series of sessions are being programmed to provide training in dealing with emergencies such as bomb threats.

EXECUTIVE MANAGEMENT STAFF

The Executive Management Staff (EMS) provides consultation and advice to the Inspector General and the Assistant Inspectors General concerning personnel and financial management, logistical and administrative management for the Inspector General Washington Office and the six overseas Regional Inspectors General Offices.

EMS RESPONSIBILITY

During this reporting period a separate Legal Counsel staff was established within the Office of Inspector General. The Legal Counsel will report directly to the Inspector General and provide independent legal advice and guidance to the Inspector General and the audit, investigation and security components of the Office of Inspector General.

LEGAL COUNSEL TO THE INSPECTOR GENERAL

The Regional Inspector General Office in Karachi, Pakistan was closed in September 1985, and the employees are now temporarily located in Washington, D.C. We have requested the Ambassador in Singapore to locate the Inspector General's Asian Regional Office in Singapore. The Ambassador reacted favorably to this request and is currently negotiating with officials of the Republic to obtain required approvals for the move.

RELOCATION OF THE REGIONAL INSPECTOR GENERAL OFFICE FOR ASIA

The Inspector General approved a reorganization of the Office of Audit. The new audit organization adds a new Office of Programs and Systems Audits. The existing Regional Inspector General for Audit Office in Washington, D.C. will continue to maintain audit responsibility for contract audits and centrally funded programs of AID. This office will have an additional responsibility for the operational aspects of the non-federal audit program. The Office of Programs and Systems Audits will have the responsibility, on an Agency-wide basis, for audits of the effectiveness or results obtained from foreign assistance programs, audits of the efficiency and effectiveness of systems used by AID to administer its program, and audits of automated data processing systems and operations as set forth in the governmental standards for audit.

REORGANIZATION OF THE OFFICE OF AUDIT

The Office of the Inspector General and Agency officials have established procedures for the Office of Inspector General budget formulation and execution. The procedures are being followed in the fiscal year 1987 annual budget process. The final step in this process is a meeting with the Deputy Administrator to negotiate differences between the Agency's proposed IG budget and the IG's request for fiscal year 1987. After this meeting, the Agency's budget request for the IG and the IG's budget request will be submitted to the Office of Management and Budget. The IG will participate as requested in budget hearings relating to the IG operations.

IG BUDGET PROCESS

INSPECTOR GENERAL MANAGEMENT INITIATIVES

During the reporting period, the Office of Inspector General has begun or has continued with the following management initiatives.

FUNDING TO AUGMENT THE IG'S FINANCIAL AUDIT CAPABILITIES

- The Office of the Inspector General is in the process of submitting a Congressional notification letter to secure \$2.5 million to fund financial and compliance audits by other federal agencies and non-federal auditors. These funds will be used to expand our audits of contractors, grantees and AID projects and programs. Pending the finalization of the Congressional notification, we estimate that over 200 audits could be initiated in fiscal year 1986 to enhance and expand audit coverage.

AUDITS OF NON-PROFIT ORGANIZATIONS

- Office of Management and Budget Circular A-110 requires non-profit organizations receiving federal funds to have financial and compliance audits performed by non-federal auditors. The Agency has active agreements valued in excess of \$1 billion with hundreds of these organizations. During this semiannual reporting period, we started to develop formal policies and procedures for managing, evaluating and utilizing the work of the non-federal auditors. We will be coordinating our efforts with the efforts of other Inspectors General and the Office of Management and Budget to identify those organizations over which the AID/IG has audit cognizant responsibilities. Although we plan to make maximum use of non-federal audits, these audits will not completely relieve the AID/IG of our audit responsibilities. These audits will affect the frequency and scope of our audits. The new policies and procedures will result in more effective use of our staff and improved oversight of work done by non-federal auditors.

INTEGRITY AWARENESS

- A number of actions were taken during this period to heighten the awareness of Agency managers and employees to the potential for fraud, waste and employee misconduct. Office of Investigations representatives made integrity awareness presentations in several Agency training programs and conferences throughout the world. In addition, integrity issues and the results of several significant cases involving employee misconduct and fraud were publicized through the local news media and in the Agency's newspaper, "The Front Lines." These publications were intended to alert AID employees and contractors of important integrity matters and serve as a deterrent to illegal and improper activity.

- As a result of an investigation in the Latin American Region, a joint task force of the Internal Revenue Service, the United States Postal Inspection Service and AIG/I personnel has been established under the direction of AIG/I. The investigation identified what appears to be improper agency-wide practices by United States consulting firms. These practices are in direct violation of United States law and Agency regulations. This multi-agency group will examine firms identified by an AID audit and determine whether prosecution and disbarment, as appropriate, should be pursued for firms engaging in illegal practices.
- Efforts to expand employee, contractor, and general public knowledge of the Hotline program continue. These efforts include promoting the Hotline through presentations, general directives, internal publications, the AID phone book, and the overseas poster program. An increase in overseas hotline information has been received, we believe as a direct result of the posters, with one known potential case opening and a substantial recovery attributable to the Hotline program during this reporting period.
- The Office of Investigations, through written and personal representations on two President's Council on Integrity and Efficiency Sub-Committees, participated in efforts to establish professional standards for IG investigators and enhance the training agenda for the Federal Law Enforcement Training Center in Glynco, Georgia.

**TASK FORCE
OPERATION**

**INSPECTOR GENERAL
HOTLINE**

PCIE INITIATIVES

OFFICE OF INSPECTOR GENERAL ORGANIZATION AND STAFFING

AUDIT AUTHORITY

The Office of the AID Inspector General was established on December 16, 1980, by Public Law (PL) 96-533 which amended the Foreign Assistance Act of 1961 (FAA). On December 29, 1981, the President signed the International Security and Development Cooperation Act of 1981 which brought the Inspector General, AID, under the purview of the Inspector General Act of 1978, PL 95-452 instead of the FAA.

ROLE AND RESPONSIBILITIES

The AID Inspector General heads an independent organization responsible for audit, investigation and fraud control relating to AID's programs and operations. In addition, the IG directs and supervises all Agency security activities, including the Agency's investigative and physical security programs. The IG is authorized by statute to also provide these services to the Overseas Private Investment Corporation and the International Development Cooperation Agency.

Pursuant to the Inspector General Act of 1978, the Inspector General conducts and supervises audits and investigations for recommending policies to promote economy, efficiency and effectiveness, and to detect and prevent fraud and abuse in the administration of programs and operations of the Agency. In this regard, the Inspector General is responsible for keeping the Administrator and the Congress fully and currently informed about problems and deficiencies in AID programs and operations, and the necessity for, and progress of, corrective actions.

ORGANIZATION AND STAFFING

The Office of the Inspector General consists of three major offices, each headed by an Assistant Inspector General. These offices are the Office of Audit, Office of Investigations, and Office of Security. Reporting to their respective Assistant Inspector General are Regional Inspectors General for Audit and Regional Inspectors General for Investigations. The Regional Inspectors General have responsibility for

assigned geographical areas. The current office location and geographical responsibilities are:

Regional Inspector General Office Location	Geographical Responsibility
Cairo, Egypt	Egypt
Dakar, Senegal	West Africa
Karachi, Pakistan ¹	Near East, South Asia
Manila, Philippines	East Asia
Nairobi, Kenya	East and North Africa
Tegucigalpa, Honduras	Latin America, Caribbean
Washington, D.C.	United States, Europe

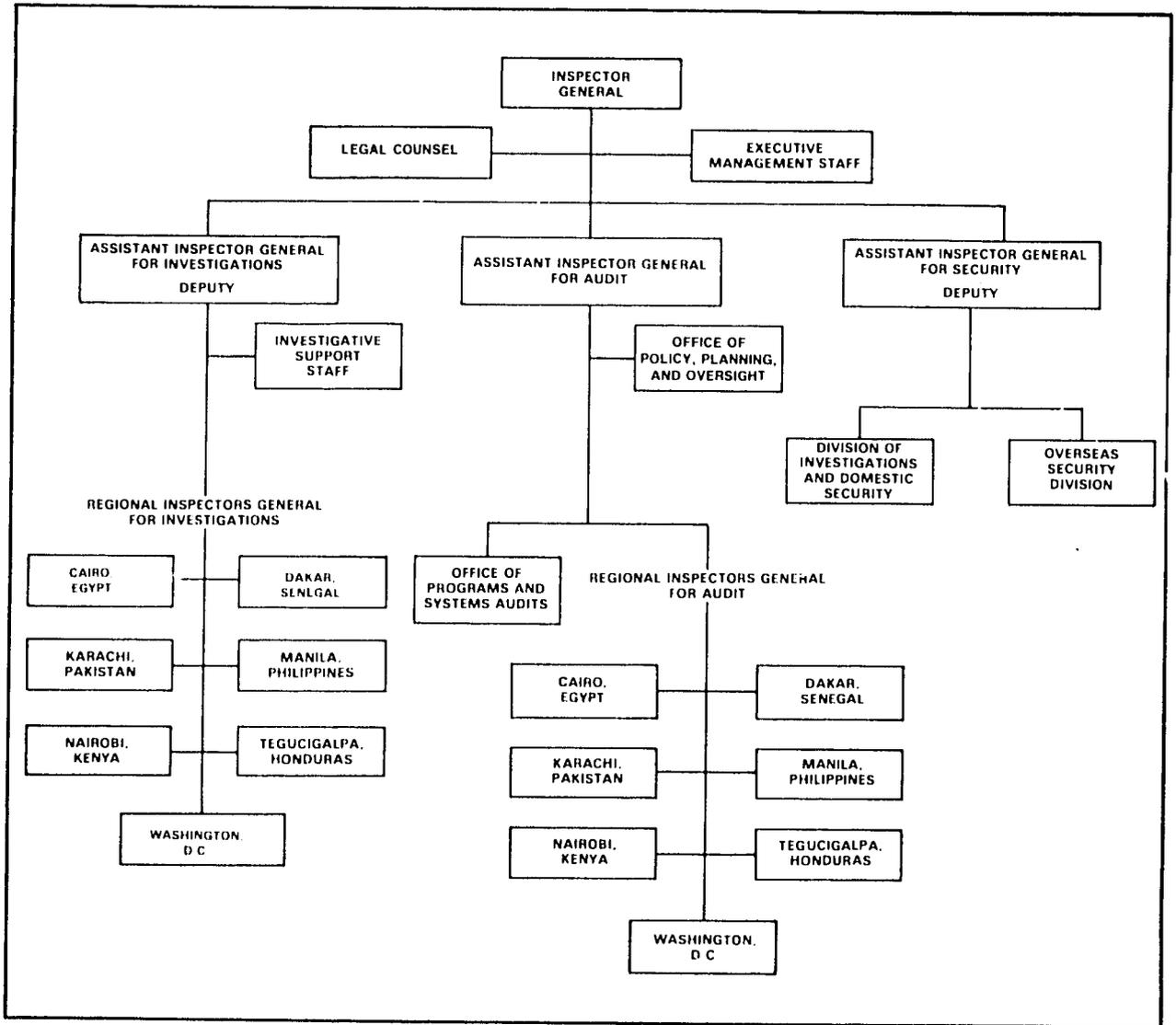
¹This office was closed in September 1985, a new location is being negotiated.

**REGIONAL
INSPECTOR GENERAL
GEOGRAPHICAL
RESPONSIBILITY**

Organization and staff distribution for the Office of Inspector General are on Tables 1 and 2.

OFFICE OF INSPECTOR GENERAL ORGANIZATION CHART

Table 1



INSPECTOR GENERAL STAFFING—SEPTEMBER 30, 1985
Table 2

<u>Professional Staff</u>	<u>Positions</u>	<u>Vacancies</u>
Office of the Inspector General	3	1
Executive Management Staff	3	0
Office of Investigations:		
U.S.	24	1
Foreign Nationals	6	2
Office of Security	13	0
Office of Audit:		
U.S.	92	2
Foreign Nationals	<u>15</u>	<u>0</u>
Total Professional Staff	156	6
<u>Support Staff</u>		
U.S.	33	2
Foreign Nationals	<u>5</u>	<u>0</u>
Total Support Staff	<u>38</u>	<u>2</u>
Total Staff (U.S. and Foreign National)	<u>194¹</u>	<u>8</u>

¹Includes full-time equivalent of part-time positions.

AUDIT REPORTS ISSUED

April 1, 1985 through September 30, 1985

INTERNAL AUDIT REPORTS

Report Number	Date of Report	Report Title
0-000-85-15	05/22/85	AID's New Caribbean and Latin American Scholarship Program Can Be Improved
0-000-85-16	06/13/85	Memorandum Audit Report on Year-End Obligations
0-000-85-17	06/17/85	Memorandum Report on Financial Audit of World Education, Incorporated
0-000-85-18	06/28/85	Memorandum Audit Report on AID's Management of Telecommunications Resources
0-000-85-19	08/26/85	Memorandum Audit Report on National Council of Negro Women
0-000-85-20	09/27/85	Audit Report on Resources Support Services Agreements Between the USDA Graduate School and AID
1-515-85-8	06/21/85	USAID/Costa Rica's Monitoring of and Controls Over Dollar and Local Currency Resources Under Economic Recovery and PL 480 Title I Programs
1-538-85-9	07/31/85	Review of Selected Agriculture Sector Projects—Regional Development Office/Caribbean
1-532-85-10	08/12/85	USAID/Jamaica's Monitoring of and Controls Over Dollar and Local Currency Resources Provided Under Economic Support Fund and PL 480 Title I Programs
1-527-85-11	08/13/85	USAID/Dominican Republic's Monitoring of and Controls Over Dollar and Local Currency Resources Provided Under Economic Recovery and PL 480 Title I Programs
1-000-85-12	08/20/85	Review of Personal Services Contracting Practices Employed by Certain Missions in AID's Latin America and Caribbean Bureau
1-519-85-13	09/26/85	Audit of Private Sector Support Program and PL 480 Local Currency Generations—USAID/El Salvador
1-522-85-14	09/27/85	Review of USAID/Honduras' Rural Technologies Project No. 522-0157
2-497-85-3	05/10/85	Audit of USAID/Indonesia's Accountability for AID-Financed Vehicles
2-497-85-4	08/13/85	Audit of Resources Management International, Inc. Overhead Reimbursement Under Four Contracts Funded by USAID/Indonesia
2-493-85-5	09/20/85	Audit of the Northeast Rainfed Agricultural Development Project in Thailand—Project No. 493-0308

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2-492-85-6	09/18/85	Memorandum Audit Report on Disaster Relief Provided to the Philippine National Electrification Administration
2-492-85-7	07/26/85	Memorandum Report on Pre-Award Survey of the International Center for Living Aquatic Resources Management (ICLARM)
3-650-85-11	04/04/85	Audit of Sudan's Rural Health Support Project
3-650-85-12	04/29/85	Memorandum Audit Report on Sudan Southern Access Road Project No. 650-0036
3-615-85-13	05/10/85	Audit of Kenya Arid and Semi-Arid Lands Development Project
3-649-85-14	06/19/85	Audit of Somalia Food and Nutrition Projects
3-660-85-15	06/28/85	Audit of Zaire Agricultural Marketing Development Projects 660-0026 and 660-0028
3-615-85-16	07/24/85	Memorandum Report on Overhead Review of the International Council for Research in Agroforestry
3-615-85-17	08/27/85	Memorandum Report on Pre-Award Survey of the Center for African Family Studies
5-383-85-4	08/29/85	Audit of Mahaweli Sector Support Loan—Sri Lanka
6-263-85-5	07/25/85	Audit of Canal Cities Water and Sewerage Project—USAID/Egypt Project No. 263-0048
6-263-85-6	08/07/85	Audit of AID's Agricultural Mechanization Project—USAID/Egypt Project No. 263-0031
6-263-85-7	08/11/85	Memorandum Audit Report on Major Cereals Improvement Project—USAID/Egypt Project No. 263-0070
6-263-85-8	09/18/85	Audit of Egypt's Suez and Quattamia Cement Plant Projects—USAID/Egypt Project Nos. 263-0012 and 0052
6-263-85-9	09/30/85	Audit of Applied Science and Technology Research—USAID/Egypt Project No. 263-0016
7-698-85-6	04/30/85	AID Support of West Africa Rice Development Association—Need to Reassess Project to Reflect What Can Realistically Be Accomplished.
7-669-85-7	05/10/85	Audit of Operating Expenses—USAID/Liberia
7-669-85-8	05/24/85	Audit of the PL 480 Title I Program to Liberia
7-682-85-9	07/12/85	Mauritania Rural Roads Improvement Project—Funding Effectively Reduced but Significant Problems Remain
AM 85-7	04/02/85	E.A. Jaenke and Associates
AM 85-8	04/08/85	Construction Control Services Corporation

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AM 85-9	05/15/85	AID Employees' Emergency Loan Fund
AM 85-10	05/15/85	Solar Organic Systems
AM 85-11	05/23/85	Hawkins & Associates, Inc.
AM 85-12	05/30/85	The Institute for Practical Idealism
AM 85-13	06/05/85	James Dobbin Associates, Inc.
AM 85-14	06/28/85	Beekhuis/Warner Burns Toan Lunde, a Joint Venture
AM 85-15	07/03/85	International Child Care of Haiti
AM 85-16	07/03/85	Fullerton and Associates
AM 85-17	07/09/85	KT&R Laboratories, Inc.
AM 85-18	07/09/85	The Centre for Development and Population Activities
AM 85-19	07/09/85	Synectics for Management Decisions, Inc.
AM 85-20	08/02/85	Minnesota International Health Volunteers
AM 85-21	08/02/85	Roy Littlejohn Associates, Inc.
AM 85-22	08/02/85	Soil and Land Use Technology, Inc.
AM 85-23	07/29/85	Utah State University
AM 85-24	09/03/85	John T. Boyd Co.
AM 85-25	09/05/85	Medical Service Consultants, Inc.
AM 85-26	09/11/85	Interamerican College of Physicians and Surgeons (ICPS)
AM 85-27	09/04/85	Warnecke/Gauthier, Alvarado
AM 85-28	09/05/85	U.S. Agricultural Development Corporation
AM 85-29	09/05/85	International Science and Technology Institute, Inc.
AM 85-30	09/05/85	John Short & Associates (JSA)
AM 85-31	09/10/85	Inter-American Bar Association
AM 85-32	09/10/85	The Conservation Foundation
AM 85-33	09/10/85	Inter-American Bar Foundation
AM 85-34	09/12/85	International Federation for Family Life Promotion (IFFLP)
AM 85-35	09/30/85	John Snow, Inc.
AM 85-37	09/30/85	Academy for Educational Development
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TR 85-83	04/04/85	Virginia State University
TR 85-84	04/04/85	University of Georgia
TR 85-85	04/04/85	University of West Florida
TR 85-86	04/04/85	Colorado State University
TR 85-87	04/04/85	International Management and Development Institute
TR 85-88	04/04/85	Development Management Systems, Inc.
TR 85-89	04/04/85	Arthur Young and Company
TR 85-90	04/09/85	Gilbert/Commonwealth, Inc. of Michigan
TR 85-91	04/09/85	The Pennsylvania University

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TR 85-92	04/10/85	African-American Labor Center
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TR 85-94	04/17/85	The Pragma Corporation
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TR 85-96	04/17/85	PADCO, Inc.
TR 85-97	04/22/85	Arthur Young and Company
TR 85-98	04/25/85	The Rand Corporation
TR 85-99	04/25/85	Warner Lambert/Parke Davis
TR 85-100	04/25/85	University of Kentucky
TR 85-101	05/06/85	Rockefeller University
TR 85-102	05/07/85	Massachusetts Institute of Technology
TR 85-103	05/21/85	Associates in Rural Development, Inc.
TR 85-104	05/21/85	CARE, Inc.
TR 85-105	05/21/85	RCA Service Company
TR 85-106	05/21/85	International Center for Research on Women
TR 85-107	05/21/85	Juarez and Associates, Inc.
TR 85-108	05/21/85	University of Minnesota
TR 85-109	05/21/85	Clark University
TR 85-110	05/28/85	ABT Associates, Inc.
TR 85-111	05/28/85	CACI, Inc.
TR 85-112	06/03/85	Cooperative League of the USA (CLUSA)
TR 85-113	06/17/85	Tuskegee Institute
TR 85-114	06/11/85	Price, Williams and Associates
TR 85-115	07/08/85	International Agricultural Development Services, Inc.
TR 85-116	06/13/85	Eastern Kentucky University
TR 85-117	07/09/85	Howard University
TR 85-118	07/09/85	A.P. Green Refractories Company
TR 85-119	07/08/85	International Science and Technology Institute
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TR 85-121	07/08/85	Parametric, Inc.
TR 85-122	07/08/85	Maxima Corp.
TR 85-123	07/19/85	CARE, Inc.
TR 85-124	07/19/85	CARE, Inc.
TR 85-125	07/19/85	CARE, Inc.
TR 85-126	07/22/85	CARE, Inc.
TR 85-127	07/24/85	Development Sciences, Inc.
TR 85-128	07/24/85	Birch and Davis Associates, Inc.
TR 85-129	07/31/85	Center for Human Services, Inc.
TR 85-130	07/25/85	University of North Carolina
TR 85-131	07/25/85	University of Florida
TR 85-132	07/25/85	Management Sciences for Health, Inc.
TR 85-133	07/31/85	Experiment for International Living

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TR 85-136	08/16/85	Colorado State University
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TR 85-142	09/09/85	CH2M Hill, Inc.
TR 85-143	09/09/85	African American Institute
TR 85-144	09/09/85	The Population Council, Inc.
TR 85-145	09/09/85	Indiana University
TR 85-146	09/09/85	Burns & Roe Industrial Services Corporation
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TR 85-149	09/18/85	Michigan State University
TR 85-150	09/18/85	META Systems, Inc.
TR 85-151	09/30/85	Experience Incorporated
TR 85-152	09/18/85	Virginia Polytechnic Institute and State University
TR 85-153	09/18/85	Public Administration Service
TR 85-154	09/18/85	Los Angeles Regional Family Planning Council, Inc.
TR 85-155	09/24/85	Mathematica Policy Research, Inc.