



*Office of Inspector General*

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**MEMORANDUM FOR THE ADMINISTRATOR**

**FROM:** [REDACTED]  
Donald A. Gambatesa /s/  
Inspector General

**SUBJECT:** Suggestions for Improving USAID's Assessment of Foreign Organizations Receiving Direct Assistance

USAID/Afghanistan is conducting a series of preaward assessments of Government of Afghanistan ministries to determine whether they can responsibly manage U.S. Government resources. OIG recently completed a review of USAID's process for conducting these assessments. Our review indicated that the assessments performed did not provide USAID with reasonable assurance of detecting significant vulnerabilities. Also, the scope of the assessments varied from one ministry to another (Review of USAID/Afghanistan's Ministerial Assessment Process, Report No. F-306-11-001-S).

Many of the lessons learned we identified regarding assessments in Afghanistan can be applied to other countries. Therefore, we suggest including the following in the scopes of work when conducting future assessments of ministries and host-government organizations worldwide:

- **Assessing Specific Programs.** Some reviewers in Afghanistan assessed a ministry's management capacity without knowing what specific programs the ministry would be asked to manage. Without understanding the types of USAID programs the ministry will manage and their approximate magnitudes, assessing a ministry's ability to manage USAID programs responsibly is difficult.
- **Control Environment.** Assessments did not explicitly consider the control environment in Afghanistan or in the individual ministries being assessed. Assessments must explicitly consider the control environment in the particular countries and individual ministries being evaluated because the environment can significantly influence the effectiveness of controls already in place or those that may be needed to be put in place. The control environment differs significantly from

country to country and could differ significantly from ministry to ministry, and this variation must be considered in conducting any assessment. For example, senior government or ministry officials in certain countries may be able to circumvent established rules, interfere with law enforcement institutions and processes, or engage in exaggerated levels of corruption with relative ease. Therefore, reviewers must consider the control environment on a case-by-case basis when assessing the ability of host countries and organizations to manage U.S. Government funds responsibly.

- **Internal Control Testing.** In the assessments conducted in Afghanistan, reviewers sometimes performed limited testing of internal controls. Testing of internal controls should include a reasonable sample of items to determine whether prescribed control procedures are adhered to and operating effectively. Reviewers should document the number of items tested, the specific items tested, and the results of the tests. Also, the assessments in Afghanistan did not include substantive coverage of controls over fixed assets, payroll, and attendance. Assessments should include testing of controls over fixed assets, payroll, and attendance, when applicable, because these areas typically involve significant resources and are vulnerable to fraud.
- **Compliance with Laws and Regulations.** For the assessments conducted in Afghanistan, it was unclear to what degree the reviewers examined compliance with applicable laws and regulations. Assessments should examine compliance with applicable laws and regulations and document which laws and regulations were tested and to what degree these were tested. Examining compliance with applicable laws and regulations is important because they may establish control procedures that must be followed. Also, a ministry's compliance with laws and regulations might serve as an indicator of its ability to comply with USAID agreement provisions. Before providing funding directly to host-government organizations, USAID should pay special attention to testing compliance with laws and regulations relating to financial management, procurement, and human resources. Testing in these areas should include provisions of laws and regulations which, if not observed, could result in waste or misuse of material amounts of USAID funds. Reviewers should also determine whether key personnel were properly vetted and whether adequate procedures exist for conducting background investigations and asset disclosure for officials in procurement or other sensitive positions.
- **USAID Supervisory Review.** While USAID supervisors reviewed assessments in Afghanistan, some supervisors limited their reviews to the final assessment report. We believe a more thorough review by USAID supervisors – including a review of supporting documentation and the evidence supporting the written assessment report – would be beneficial. Supervisors should approve, in advance, the scopes of work, testing plans, or questionnaires to be used by the assessment team, and they should review the work that supports the team's conclusions. This more thorough review would give USAID assurance that the facts and conclusions in assessment reports are supported by reliable evidence.

- **Ministry Comments.** Reviewers did not always provide draft assessment reports to ministries for comments before issuing the reports. We believe assessment reports should be provided to the ministries for comment before being issued in final. Giving the ministries an opportunity to comment on draft reports can help ensure that the facts in the report are accurate and that disagreements on the content are resolved before reports are issued in final.

cc: [REDACTED], Counselor  
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[REDACTED], Chief Financial Officer