OFFICE OF INSPECTOR GENERAL

AUDIT OF ENGENDER HEALTH'S MANAGEMENT OF ACTIVITIES FINANCED BY USAID/BOLIVIA

AUDIT REPORT NO. 1-511-09-004-P
JANUARY 15, 2009

SAN SALVADOR, EL SALVADOR

Office of Inspector General

January 15, 2009

MEMORANDUM

TO: USAID/Bolivia Acting Director, Peter Natiello
USAID/Bolivia Contracting and Agreement Officer, Natalie Thunberg
M/OAA/GH Agreement Officer, Anne T. Quinlan

FROM: RIG/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of Engender Health's Management of Activities Financed by USAID/Bolivia (Report No. 1-511-09-004-P)

This memorandum transmits our final report on the subject audit. We carefully considered your comments on the draft report in finalizing the audit report and have included your response in appendix II of the report.

The report includes eight recommendations related to questioned costs. Management decisions have been reached for Recommendation Nos. 1, 2, 3, 4, 5, and 6. M/CFO/APC will record final action when planned actions have been completed.

Management decisions on Recommendation Nos. 7 and 8 can be reached once the Office of Acquisition and Assistance (OAA) determines a date for bill collection for the associated questioned costs. Please advise my office within 30 days of any further actions planned or taken to reach management decision on this recommendation.

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

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SUMMARY OF RESULTS

Bolivia, one of Latin America's poorest countries, has one of the region's highest maternal mortality rates. The Government of Bolivia (GOB) is focusing on this issue, and to help improve maternal health services USAID/Bolivia signed a three-year cooperative agreement with Engender Health in September 2006. As of June 30, 2008, $4.1 million has been obligated. Engender Health also implements a global agreement managed by USAID/Washington (Global Health) under which it has received $3.7 million of USAID/Bolivia funding since 2003 (page 3).

In response to a request by USAID/Bolivia, RIG/San Salvador performed an audit to answer the following questions:

- Did Engender Health manage USAID-financed activities efficiently, in accordance with 22 CFR Part 226, other agreement requirements, and its own policies and procedures?

- Did Engender Health follow sound procurement practices in accordance with 22 CFR Part 226, other agreement requirements, and its own policies and procedures (page 3)?

Regarding the first question, Engender Health did not efficiently manage USAID-financed activities in accordance with 22 CFR Part 226, its own policies and procedures, and agreement requirements. Questioned costs were identified in relation to (1) an unsupported accrued expenditure billed to USAID (page 4), (2) cost sharing contributions falling short of requirements or that are not valid (page 4), (3) Engender Health Bolivia staff only working seven hours a day (page 6), (4) an ineligible new position and salary (page 7), and (5) an Engender Health local employee using part of temporary office space for private housing (page 8).

Regarding the second question, Engender Health did follow sound procurement practices for most costs, but did not use competitive procedures to hire consultants (page 9). In addition, an apparent conflict of interest arose during a procurement of graphic design services (page 11).

The first six report recommendations ask USAID/Bolivia to determine the allowability with regard to questioned costs totaling $943,898 and recover from Engender Health the amount determined to be unallowable (pages 4-11).

The last two recommendations ask USAID/Washington (Global Health) to determine the allowability with regard to questioned costs totaling $504,269 and recover from Engender Health the amount determined to be unallowable (pages 11-12).

USAID/Bolivia agreed to implement the first six recommendations and plans to address all of them by February 28, 2009. Management decisions have been reached on these six. Comments have not been received from the Office of Acquisition and Assistance (OAA) regarding the last two recommendations. Management decisions can be reached on the last two once OAA determines a date for bill collection for the associated questioned costs. Our evaluation of management comments is provided in the

Evaluation of Management Comments section of this report (page 13), and USAID/Bolivia's comments in their entirety are included in Appendix II.

BACKGROUND

Landlocked Bolivia is one of South America's poorest countries. In the mid 1990s, infant and maternal death rates were among the highest in Latin America. Since then, the Government of Bolivia (GOB) has made reducing these mortality rates a central part of its health strategy.

In this environment, USAID/Bolivia entered into a three-year cooperative agreement in September 2006 with Engender Health with an estimated cost of $6 million. As of June 30, 2008, $4,111,592 was obligated. The intent was to support the implementation of an integrated package of maternal health services and build the capacity of institutions to provide these services effectively. Engender Health also implements a USAID/Washington centrally-funded health project that has received $3,700,000 of additional USAID/Bolivia funding through Global Field support since 2003.

AUDIT OBJECTIVES

In response to a request by USAID/Bolivia, RIG/San Salvador performed an audit to determine whether Engender Health managed activities efficiently and conducted procurements in accordance with 22 CFR Part 226 and other applicable regulations. The Regional Inspector General/San Salvador performed an audit to answer the following questions:

- Did Engender Health manage USAID-financed activities efficiently, in accordance with 22 CFR Part 226, other agreement requirements, and its own policies and procedures?

- Did Engender Health follow sound procurement practices in accordance with 22 CFR Part 226, other agreement requirements, and its own policies and procedures?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Did Engender Health manage USAID-financed activities efficiently, in accordance with 22 CFR Part 226, other agreements, and its own policies and procedures?

Engender Health did not efficiently manage the USAID-financed activities in accordance with 22 CFR Part 226, agreement requirements, and its own policies and procedures.

The following sections describe the issues identified during the audit that require action by USAID/Bolivia or USAID/Washington.

Accrued Expenditure Billed to USAID Not Properly Supported

Summary: As stated in 22 CFR § 226.21 (b), a recipient's financial management systems should provide accurate, current and complete disclosure of financial results. The financial status report dated June 30, 2008 provided to USAID/Bolivia included a $79,285 accrual for subcontract costs. The accrual was not based on evidence that work had been completed, but rather on the subcontract itself. This oversight will be corrected, according to Engender Health staff. This accrual was part of Engender Health's request for disbursement even though it is unclear if the work has been performed by the subcontractor.

In 22 CFR § 226.21(b), it is stated that recipients' financial management systems shall provide for accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program.

The most recent financial status report (SF-269 a) presented to USAID/Bolivia for the local agreement, dated June 30, 2008, included a $79,285 subcontract accrual. However, only the subcontract was available as backup for this accrual rather than a pro forma invoice or other evidence that work was actually completed.

This was due to an oversight, according to Engender Health staff, and will be corrected in the next invoice. The accrual in this case pertains to payments under a subcontract that Engender Health thought would be due shortly.

The $79,285 accrual billed to USAID is deemed an ineligible questioned cost because there is no evidence that an expense has been incurred.

Recommendation No. 1: We recommend that USAID/Bolivia determine the allowability with regard to the unsupported questioned costs of $79,285 and recover from Engendered Health the amount determined to be unallowable.

Cost Sharing Contributions Fell Short of Requirements and Some Contributions Are Not Valid

Summary: The local agreement requires Engender Health to contribute the lesser of $600,000 or 10 percent of the federal share, and U.S. laws and regulations (22 CFR Part 226 and ADS 303) require that these cost sharing contributions cover costs that would otherwise have to be covered by the federal share in achieving project goals. Of the required $371,869 cost sharing contribution, $8,060 represented valid cost sharing contributions, $134,309 represented cost sharing contributions not provided, and $229,500 represented contributions that were not valid. The latter amount represents the salaries of people who attended training and workshop provided by Engender Health, costs that would not have otherwise been borne by Engender Health for project objectives. Records on cost sharing contributions were not readily available as Engender Health Bolivia staff were not complying with an Engender Health requirement to report on cost sharing contributions on a quarterly basis. Had Engender Health staff followed this Engender Health procedure, the cost sharing shortfall and ineligible cost sharing contributions would likely have been identified sooner. Not meeting the cost sharing requirement means that the project was missing an important source of funding that could have helped achieve the goals of the project.

Per the local agreement, Engender Health is to expend the lesser of $600,000 or 10 percent of the federal share as cost sharing. The budgets in the agreement and subsequent amendments include a line item for the cost sharing contribution and each year includes 10 percent of the federal share expended. 22 CFR § 226.23 (a) (3) states that third party in-kind contributions are acceptable only if they are necessary and reasonable for proper and efficient accomplishment of project or program objectives. Per 22 CFR § 226.2 cost sharing is defined as program costs not borne by the Federal Government, and third party in-kind contributions as goods and services directly benefiting and specifically identifiable to the project. Also, Engender Health's policies and procedures state that a spreadsheet reporting cost sharing contributions is to be sent to New York headquarters on a quarterly basis for review. ADS 303.3.10.2 says that cost sharing is a condition of the award once it is part of the approved award budget and can be a questioned cost if the recipient does not fulfill this requirement. ADS 303.3.10.4 also explains that the Agreement officer has the authority to request the recipient to refund the cost sharing shortfall if the award has been terminated.

The records for cost sharing contributions presented on September 2, 2008 amounted to $237,560, $134,309 short of the $371,869 (10 percent of amount billed as of June 30, 2008) required. In addition, the cost sharing that represents the $237,560 is mostly ($229,500) made up of salaries of participants who attended training or workshops provided by Engender Health. As these do not represent costs that Engender Health has paid or would otherwise have paid in the necessary and efficient accomplishment of program objectives, they are not valid cost sharing contributions.

Engender Health staff could not easily produce the relevant records and were not aware of the status of cost sharing contributions. This was at least partly because Engender Health staff did not comply with Engender Health's own quarterly reporting requirement, which would have helped ensured that the relevant records were prepared and might have helped surface any issues early on in the project.

As Engender Health did not meet the cost sharing requirement, the project lacked an important funding source. This funding, if provided, could have helped in the achievement of project goals.

Recommendation No. 2: We recommend that USAID/Bolivia determine the allowability with regard to $134,309 in unsupported cost sharing contributions and $229,500 in ineligible required cost sharing contributions that were not made as of June 30, 2008 and recover from Engender Health the amount determined to be unallowable.

Engender Health Bolivia Staff Only Work Seven Hours a Day

Summary: Employees of Engender Health are to work eight hours a day with one hour for lunch per Engender Health procedures. The procedures also state that full time employees work 40 hours a week. However, Engender Health employees said their office hours were from 9:00 to 5:00 with an hour for lunch; i.e., 7 hours a day or 35 hours a week. Engender Health procedures require 40 work hours per week and 8 hours a day "with a one-hour lunch break". Engender Health staff misconstrued the latter phrase as meaning that a seven-hour work day was authorized. Therefore, 12.5 percent of salary costs were incorrectly billed to USAID/Bolivia and represent ineligible questioned costs. This comes to $76,343 and associated indirect costs total $59,072.

Engender Health procedures state that employees shall work an eight-hour workday with a one-hour lunch break. Procedures also state that full time employees are to work 40 hours a week on a regular basis.

Engender Health staff indicated that the working hours of the office were from nine in the morning until five in the afternoon with one hour for lunch. This means that staff only work 7 hours a day, or 35 hours a week.

Engender Health procedures require a 40 hour week and 8 hours of work a day "with a one-hour lunch break". Engender Health staff construed the latter phrase to mean that a seven-hour workday was permissible.

The remaining 5 hours per week effectively translates into 12.5 percent of the Bolivia salaries billed to USAID, or as $76,343 of ineligible questioned costs. As of June 30, 2008 the indirect rates the cooperative agreement used were 25.08 percent for fringe, 30.94 percent for overhead, and 21.32 percent for general and administrative. Using these rates, the associated fringe, overhead, and general & administrative costs to be questioned are $19,146, $29,544, and $10,381 respectively, for a total of $59,072.

Recommendation No. 3: We recommend that USAID/Bolivia determine the allowability with regard to the 12.5 percent of ineligible questioned salary cost in the amount of $76,343 as well as associated indirect costs totaling $59,072 and recover from Engender Health the amount determined to be unallowable.

Salaries Billed to the Local Agreement Were Allocable to the Global Agreement

Summary: Four key personnel per the local agreement and six other project staff are to work and bill time to USAID under this agreement. The accounting records show that staff

also spent time on the global agreement implemented by Engender Health. Engender Health staff agreed that they spent a portion of their time performing tasks not related to the local agreement but that this was not reflected in their billings. Engender Health staff estimated the percentage of time certain employees spent on other Engender Health agreements. Using these estimates $61,844 of salary was incorrectly billed. The associated indirect costs are $47,853. Engender Health did not have dedicated staff for the global agreement in Bolivia and so inappropriately used staff of the local agreement. The use of staff paid under the USAID/Bolivia agreement to work on the USAID/Washington agreement hurt Engender Health's performance in Bolivia. USAID/Bolivia and a local NGO complained of poor performance when compared to Engender Health's performance in previous years.

The local cooperative agreement 511-A-00-06-00210-00 states that four employees are key personnel. They and six other Engender Health Bolivia staff working on the local agreement are to work and bill time to USAID under this agreement.

It is apparent from the review of the accounting records that staff did not only spend time on cooperative agreement 511-A-00-06-00210-00, but also on the other Engender Health agreement with activities in Bolivia (Global Field Support agreement). Engender Health staff acknowledged that this was the case and made a good faith effort at estimating time spent by staff on the Global Field Support agreement. The estimates ranged from 5 to 35 percent depending on the particular employee. However, the salaries and associated indirect costs of the four key personnel and the rest of the staff were fully billed to cooperative agreement 511-A-00-06-00210-00. Using the estimates given by Engender Health Bolivia staff this comes to $61,844 of salary costs. The associated indirect costs are $47,853. We are not recommending that USAID recover these costs from Engender Health because USAID/Washington presumably received a benefit from the efforts of Engender Health staff. In addition, USAID/Bolivia's agreement with Engender Health has now ended, so there is no continuing internal control issue that needs to be resolved.

Engender Health did not have dedicated local staff for the Global Field Support agreement and did not have a separate local bank account. Thus, it became normal practice for staff to perform work for both agreements as they were both managed by Engender Health.

The effect of this is that cooperative agreement 511-A-00-06-00210-00 did not get dedicated time of the four key personnel as called for by the signed agreement, although the full salaries were billed to this agreement. This clearly had an effect on the accomplishment of results for the agreement as USAID/Bolivia and a local NGO have complained of poor performance. According to both, this was not the case under previous agreements with Engender Health.

Salary of New Position Is Not Reasonable

Summary: Allowable costs must be reasonable for the performance of the project per OMB Circular A-122. However, a promotion was given to an employee that USAID/Bolivia had requested be removed from a position of authority. When Engender Health removed the employee from the position of authority, it placed the employee in a newly created position (knowledge management) that, according to USAID/Bolivia and Engender Health staff, was not part of planned activities. The salary of $26,400 for this new position, together with $20,427 in associated indirect costs, is not reasonable or allocable to the USAID/Bolivia agreement or reasonable, and is therefore an unsupported questioned cost. The employee was clearly moved to a new position because USAID/Bolivia requested the employee's removal from the previous one. However, Engender Health management did not address the issues head on and by attempting to placate both USAID and the employee added an ineligible salary cost to the project.

According to OMB Circular A-122 attachment A, allowable costs must be reasonable for the performance of the award.

An employee was promoted in July 2007 and given a new title. However, on closer inspection the new position given did not exist previously. In discussions with USAID/Bolivia and EH staff, USAID requested that this person be removed from a position of authority in the Santa Cruz office. While Engender Health did replace this person in Santa Cruz, they created a new position for her (knowledge management) in La Paz. In further discussions with USAID/Bolivia and Engender Health staff we concluded this new position was not needed given the objectives of the project, and Engender Health staff indicated that they saw very little production from the new position. The salary of $26,400 and associated indirect costs of $20,427 are not deemed reasonable for the achievement of project goals and are unsupported questioned costs.

When USAID/Bolivia asked that this person be removed from a position of authority in Santa Cruz Engender Health did so but grudgingly and then did not terminate the person's employment but rather created a new unnecessary position in La Paz and added a salary increase. In other words, management tried to avoid problems as opposed to resolving them.

The effect of this was to bill USAID/Bolivia for a position that was not needed or part of the objectives of the project.

Recommendation No. 4: We recommend that USAID/Bolivia determine the allowability with regard to unsupported salary in the amount of $26,400 as this is deemed a questioned cost as well as associated indirect costs of $20,427 and recover from Engender Health the amount determined to be unallowable.

Local Employee Used Part of Temporary Office as Private Housing

Summary: Housing for project staff is not provided for in the local agreement. When Engender Health opened an office in the city of Santa Cruz, a bungalow at the Quinta hotel was used as temporary office space until a permanent location was found. However, a Santa Cruz Office employee used the upstairs as living quarters and did not reimburse the project. While some Engender Health staff said this was allowed as the bungalow was already being used for temporary office space, others thought this was because of the person's authority within the project. Therefore, USAID paid for the housing costs of a project employee when the agreement did not allow for this. Another effect was that employees were not able to work late as the office was used as a living space. The total cost of the bungalow came to $2,795 and as the upstairs represents half of the bungalow,

$1,397 is considered to be an ineligible questioned cost. The associated indirect costs of $297 are also questioned.

The local agreement 511-A-00-06-00210-00 does not provide for any staff housing. Specifically, the Santa Cruz Office employees are not to bill USAID/Bolivia for housing as the agreement and budget do not include any such provision.

When Engender Health opened an office in Santa Cruz a bungalow at the Quinta hotel was used as a temporary office until a permanent location was identified. This arrangement began on March 20, 2007 and lasted until early August. However, an employee of Engender Health in Santa Cruz proceeded to use the second floor bedroom as her living space during this same period. After office hours, the entire bungalow was used by this employee. The employee did not reimburse the project for use of the living space and the entire cost was billed to USAID.

Engender Health staff indicated this was done as the bungalow was already rented, and there was no additional cost to the project from its use after hours as living quarters for the employee in question. However, other Engender Health staff thought this was allowed due to the authority given to this employee as others did not live in the bungalow as well.

This means USAID was billed for housing costs that were not part of approved costs in the Cooperative Agreement. In addition to this, an Engender Health employee stated they were not able to work late at times due to the use of the temporary office as a living space. The cost of the bungalow was $2,795 and as the upstairs portion represents half of the bungalow, $1,397 is deemed an ineligible questioned cost. The associated indirect costs to be questioned are $297.

> *Recommendation No. 5: We recommend that USAID/Bolivia determine the allowability with regard to the 50 percent of temporary office costs deemed an ineligible questioned cost in the amount of $1,397 as well as associated indirect costs totaling $297 and recover from Engender Health the amount determined to be unallowable.*

Did Engender Health follow sound procurement practices in accordance with 22 CFR Part 226, other agreements, and its own policies and procedures?

While EH Bolivia did follow sound procurement practices for most procurements of goods and services, it did not use competitive procedures to contract consulting services. A conflict of interest was also noted. These issues are discussed in the following section.

Consultant Services Were Contracted Without Competition

Summary: All procurement transactions are to be conducted in a manner to provide open and free competition according to 22 CFR § 226.43. In addition, 22 CFR § 226.40 and 22 CFR § 226.44 (a) (3) specify that this includes both the procurement of goods and services.

Engender Health has written procurement procedures requiring that procurement of goods more than $500 require competition by getting three quotes before selection is made. However, consulting services were not competed in this manner. Engender Health staff said that consulting was thought to not require competition or three bids. A database of consultants was used as the need arose, but many consultants were selected that were not in this database. Engender Health did not document how these selections were made. The amount questioned due to lack of competition for the local agreement is $261,184 while $411,653 for the global agreement is questioned. Associated indirect costs of $55,684 and $87,764 are also questioned. The lack of competition means the U.S. taxpayer may not have gotten the best price or best quality available.

Section 22 CFR 226.43 states that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. In addition, 22 CFR § 226.40 and 22 CFR § 226.44 (a) (3) specify that this requirement include both the procurement of goods and services. In accordance with 22 CFR § 226.44, Engender Health has written procurement procedures. These procedures require that all procurement of equipment and goods above $500 are to be competed and that three quotes should be documented[1].

While Engender Health staff clearly believed that procurement of both services and equipment above $500 required competition with three bids, consultant services were not competed in this manner. This was apparent from the review of services besides consulting that did include three bids every time the amount was over $500. Engender Health staff said that consultant services were not thought to require three bids and competition as other services did. A database of consultants was used as the need arose; however, consultants that were not in the database were also selected without any competition or recruiting used. New consultants hired that were not in the database were simply friends and acquaintances of certain Engender Health staff. Engender Health procurement files did not include a comparison of consultant qualifications with those of other candidates or the reasons for selection of a particular consultant. Accordingly, all consulting costs over $500 are ineligible questioned costs. For the local agreement 511-A-00-06-00210-00 this represents $84,632 in the consulting account and $176,552 of consulting services in the training account for a total of $261,184, as well as the associated indirect costs. For the Global Field Support agreement, the Bolivian consulting costs to be questioned come to $411,653. The associated indirect costs to be questioned are $55,684 and $87,764, respectively.

Engender Health understood that consultants did not meet the definition of services to be procured and this did not require the documentation of three quotes and competition. This is made clear by the fact that fixed assets tested and non-consulting services all had three quotes if above $500. Staff said that they did not view consultants over $500 as a service to be procured requiring three quotes.

Engender Health may not have gotten the best service for the best price for the U.S. taxpayer, and so may not have been efficient in the contracting of consultant services.

[1] While 22 CFR Part 226 also mentions procurement of services requiring open and free competition, Engender Health's procedures do not refer to services. However, in discussions with Engender Health Bolivia staff, procurement of services above $500 also requires three bids. This is apparent as printing services as well as other services over $500 had three documented bids and a clear selection process.

EH staff indicated that at times recent college graduates were used to provide training to specialists with over ten years of experience.

Recommendation No. 6: We recommend that USAID/Bolivia determine the allowability with regard to all consulting expenses above $500 totaling $261,184 for cooperative agreement 511-A-00-06-00210-00 *as these are deemed to be ineligible questioned costs as well as the associated indirect costs of $55,684 and recover from Engender Health the amount determined to be unallowable.*

Recommendation No. 7: We recommend that USAID/Washington (Global Health) determine the allowability with regard to all consulting expenses above $500 totaling $411,653 for the global agreement GPO-A-00-03-00006-00 as these are deemed ineligible questioned costs and the associated indirect cost rates coming to $87,764 and recover from Engender Health the amount determined to be unallowable.

Conflict of Interest Rules Were Not Followed

Summary: U.S. Federal Regulations state that no employee or officer shall participate in the selection, award, or administration of a contract if a real or apparent conflict of interest is involved. A conflict is said to be present when immediate family is concerned. However, under the Global Field Support agreement, Engender Health procured printing services from a company run by the Chief of Party's (COP's) son, and the COP was one of three people involved in the selection. Some Engender Health staff incorrectly believed that the conflict of interest was not a problem because the COP was not his direct supervisor, while other staff believed nepotism was involved as the services were not needed and the resulting products were not used. As a result, Engender Health violated conflict of interest rules in the procurement totaling $4,000 and it may not have received the best service for the best price for the U.S. taxpayer.

22 CFR § 226.42 states no employee or officer shall participate in the selection, award, or administration of a contract if a real or apparent conflict of interest would be involved. Such a conflict is said to exist when a member of ones immediate family is concerned. The recipient is also to be alert to conflicts of interest (22 CFR § 226.43).

However, under the Global Field Support agreement, Engender Health procured the printing services of a company run by the COP's son in the amount of $4,000 in February 2008. The COP was one of the three individuals involved in selecting her son's company over the other two bids received.

Although the son's company was the lowest bidder, we were unable to verify one of the other two bids. Specifically, registration for the printing company for one of the bids was not up to date as it was last registered as a business in 2006. Also, we were unable to physically locate the company based on the address listed in the project files. In trying to call the company, the person who answered hung up once told that USAID was calling. In a subsequent telephone call, the individual who answered finally acknowledged the bid, but was adamant about not wishing to receive a visit.

Some Engender Health staff indicated that not having the COP as the son's direct supervisor solved the conflict of interest issue. While his direct supervisor on this contract was not his parent, the conflict of interest is clearly present as the COP was the supervisor of all staff on the project. It is not reasonable to expect that this would not at the very least bear the appearance of a conflict of interest. Also, as mentioned above, the COP was one of the three individuals involved in selecting her son's company.

Moreover, two Engender Health staff said that they were aware of the hiring of the COP's son and that the services he and his company were hired for were not needed and the products received were not used. This led them to conclude this was an example of nepotism.

As a result, Engender Health violated conflict of interest rules in the procurement totaling $4,000 and may not have received the best service for the best price for the U.S. taxpayer.

Recommendation No. 8: We recommend that the agreement officer for the Global Field Support agreement no. GPO-A-00-03-00006-00 determine the allowability with regard to ineligible questioned costs of $4,000, as well as the related estimated indirect costs of $852 and recover from Engender Health the amount determined to be unallowable.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Bolivia agreed to implement the first six recommendations and plans to address all of them by February 28, 2009. For instance with regard to Recommendation No. 2, the mission stated that it sustains the full amount of the recommended questioned cost (a $403,099 cost sharing shortfall). A Management decision has been reached on Recommendation Nos. 1, 2, 3, 4, 5, and 6.

Comments have not been received from the Office of Acquisition and Assistance (OAA) regarding the last two recommendations. Management decisions can be reached on Recommendation Nos. 7 and 8 once OAA determines a date for bill collection for the associated questioned costs. Therefore, management decisions are pending.

USAID/Bolivia's comments in their entirety are presented in Appendix II.

SCOPE AND METHODOLOGY

Scope

RIG/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards to determine if Engender Health managed USAID-financed activities efficiently and followed sound procurement practices in accordance with 22 CFR Part 226, other agreements, and its own policies and procedures. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. Audit fieldwork was conducted at USAID/Bolivia and Engender Health Bolivia offices from August 25, 2008, through September 11, 2008. The audit covered the period from September 30, 2006 through June 30, 2008. However, consulting costs covered the period from October 30, 2003 through June 30, 2008.

In planning and performing the audit, we assessed USAID's internal controls related to these agreements. Specifically, we reviewed the following controls: USAID/Bolivia's review of the contractor's performance reports, budget execution, work plan, and budgets presented. We also conducted interviews with key USAID/Bolivia personnel, contractor officials, and a Government of Bolivia (GOB) hospital official. We conducted the audit at USAID/Bolivia, located in La Paz, Bolivia, Engender Health Bolivia offices, located in La Paz and Santa Cruz, Bolivia, and visited a GOB hospital official in Santa Cruz.

Methodology

To answer the audit objectives, we reviewed Engender Health's cooperative agreement with USAID/Bolivia as well as the one with USAID/Washington. We also reviewed 22 CFR Part 226, Engender Health's policies and procedures, and progress reports. The 2007 local audit report of Engender Health was reviewed as well. We also judgmentally selected transactions for consulting, travel, training, and salary costs for testing.

We also conducted interviews with USAID/Bolivia staff as well as Engender Health Bolivia staff.

MANAGEMENT COMMENTS

DATE: December 19, 2008

REPLY TO: Natalie Thunberg, Contract Officer, USAID/Bolivia

TO: Timothy E. Cox, RIG/San Salvador

SUBJECT: USAID/Bolivia's response to the Audit of Engender Health's Management of Activities Financed by USAID/Bolivia (Report No. 1-511-09-00X-P)

THROUGH: Peter Natiello, Acting Director, USAID/Bolivia

USAID/Bolivia has reviewed the draft audit report provided to the Mission on November 14, 2008. Please see our comments below. We appreciate the opportunity to review and comment on the draft report before it is formally issued. We would also like to take this opportunity to thank the RIG for their support. The recommendations provided will help guide USAID/Bolivia in correcting the problems identified.

Recommendation No. 1: We recommend that USAID/Bolivia determine the allowability of the unsupported questioned costs of $79,285 and recover from Engendered Health the amount determined to be unallowable.

Response to Recommendation No. 1

This questioned cost pertains to a recent financial status report (SF-269a) dated June 30, 2008, which included an undocumented subcontract accrual of $79,285. The $79,285 accrual billed to USAID will be sustained as an ineligible questioned cost because there is no evidence that an expense has actually been incurred. Engender Health claims this was due to an oversight, and that it will be corrected in the next invoice.

Recommendation No. 2: We recommend that USAID/Bolivia determine the allowability of $134,309 in unsupported cost sharing contributions and $229,500 in ineligible required cost sharing contributions that were not made as of June 30, 2008 and recover from Engender Health the amount determined to be unallowable.

Response to Recommendation No. 2

Per the local agreement, No. **511-A-00-06-00210-00**, Engender Health is to expend the lesser of $600,000 or 10 percent of the federal share as cost sharing. Therefore, required cost sharing at the time of the audit would have been 10 percent of the amount billed as of June 30, 2008, which would be equivalent to $371,869.

Of the $237,560 in cost sharing contributions reported by Engender Health, USAID/Bolivia considers $229,500 as sustained ineligible cost sharing contributions because this cost sharing amount represented contributions that were not valid. (This amount represents the salaries of people who attended trainings and workshops provided by Engender Health, costs that would not have otherwise been borne by Engender Health for project objectives). The remaining cost sharing contribution of $8,060 ($237,560 - $229,500) is considered an allowable cost sharing contribution

ADS 303.3.10.4 states that the Agreement officer has the authority to request the recipient to refund the cost sharing shortfall if the award has been terminated. The award with Engender Health was terminated on October 31, 2008 with a final total Agreement amount of $4,111,592. Required cost sharing at the termination of the award (10 percent of the total Agreement amount) is equivalent to $411,159. The actual shortfall in the required counterpart contribution (unsupported cost sharing contributions) amounts to $403,099 ($411,159 - $8,060). USAID/Bolivia sustains the full amount of the recommendation.

Recommendation No. 3: We recommend that USAID/Bolivia determine the allowability of the 12.5 percent of ineligible questioned salary cost in the amount of $76,343 as well as associated indirect costs totaling $59,072 and recover from Engender Health the amount determined to be unallowable.

Response to Recommendation No. 3

Engender Health employees claim office hours were from 9:00 to 5:00 with an hour for lunch; i.e., 7 hours a day or 35 hours a week. Since Engender Health procedures require 40 work hours per week and 8 hours a day, apparently 12.5 percent of salary costs were incorrectly billed to USAID/Bolivia. The ineligible questioned salary amount $76,343 and associated indirect costs total $59,072 is considered unallowable and sustained by USAID/Bolivia.

Recommendation No. 4: We recommend that USAID/Bolivia determine the allowability of unsupported salary in the amount of $26,400 as this is deemed a questioned cost as well as associated indirect costs of $20,427 and recover from Engender Health the amount determined to be unallowable.

Response to Recommendation No. 4

A promotion was given to an employee that USAID/Bolivia had requested be removed. Engender Health placed the subject employee in a newly created position, billing USAID/Bolivia for a position that was not needed or part of the objectives of the project. Thus the unsupported salary of $26,400 for this new position, together with $20,427 in associated indirect costs, is considered unallowable and sustained by USAID/Bolivia.

Recommendation No. 5: We recommend that USAID/Bolivia determine the allowability of the 50 percent of temporary office costs deemed an ineligible questioned cost in the amount of $1,397 as well as associated indirect costs totaling $297 and recover from Engender Health the amount determined to be unallowable.

Response to Recommendation No. 5

The local agreement 511-A-00-06-00210-00 and its corresponding budget does not provide for any staff housing provisions. USAID/Bolivia considers the 50 percent of temporary office costs and associated indirect costs billed to USAID/Bolivia as unallowable and will sustain the ineligible questioned cost of $1,397 and the associated indirect costs of $297.

Recommendation No. 6: We recommend that USAID/Bolivia determine the allowability with regard to all consulting expenses above $500 totaling $261,184 for cooperative agreement* 511-A-00-06-00210-00 *as these are deemed to be ineligible questioned costs as well as the associated indirect costs of $55,684 and recover from Engender Health the amount determined to be unallowable.

Response to Recommendation No. 6

While Engender Health staff clearly believed that procurement of both services and equipment above $500 required competition with three bids, consultant services were not competed in this manner. Accordingly, all consulting costs over $500 will be sustained as ineligible questioned costs. For USAID/Bolivia's agreement 511-A-00-06-00210-00, this represents direct consulting fees amounting to $261,184 as well as associated indirect costs of $55.684.

The audit report contains a total of eight recommendations. However, the last two recommendations (7 & 8) have been assigned by the RIG to USAID/Washington (Global Health). We understand that a copy of the audit draft report has also been shared with USAID/Washington for action. As such, we are not providing comments for the last two recommendations.

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