# OFFICE OF INSPECTOR GENERAL

# AUDIT OF USAID/SOUTH SUDAN'S CORE INSTITUTIONAL STRUCTURES PROJECT

AUDIT REPORT NO. 4-668-13-008-P
JULY 11, 2013

PRETORIA, SOUTH AFRICA

*Office of Inspector General*

July 11, 2013

**MEMORANDUM**

**TO:** USAID/South Sudan Mission Director, William Brands

**FROM:** Regional Inspector General/Pretoria, Robert W. Mason /s/

**SUBJECT:** Audit of USAID/South Sudan's Core Institutional Structures Project (Report No. 4-668-13-008-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them in their entirety (without the attachments) in Appendix II.

The report includes seven recommendations to strengthen USAID/South Sudan's oversight of the Core Institutional Structures Project. We acknowledge management decisions on all seven recommendations and final action on Recommendations 1, 5, and 6. Accordingly, these recommendations are closed on report issuance. Please provide the necessary documentation to the Office of Audit Performance and Compliance Division to achieve final action on Recommendations 2, 3, 4, and 7.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

U.S. Agency for International Development
100 Totius Street
Groenkloof X5, 0181
Pretoria, South Africa
http://oig.usaid.gov

# CONTENTS

# SUMMARY OF RESULTS

On January 9, 2005, the Government of Sudan and the Sudanese People's Liberation Movement (SPLM)[1] signed the Comprehensive Peace Agreement, which ended a civil war that lasted decades and claimed millions of lives. The agreement established a Government of South Sudan as a subnational government. The agreement also called for a referendum in 2011 to allow the South Sudanese to decide whether they wanted to be an independent nation. In January 2011, South Sudan voted overwhelmingly for independence from Sudan, and on July 9, 2011, South Sudan became an independent nation.

The agreement created the Government of South Sudan on paper, but the institution did not have the buildings, personnel, or systems it needed to function. In addition, critical issues were left unresolved related to areas on the border between northern and southern Sudan, known as the Three Areas—Southern Kordofan State, Blue Nile State, and Abyei.

Four months before the agreement was signed, USAID contracted with BearingPoint to implement the first stage of the Core Institutional Structures Project (Core). On August 22, 2006, after the signing of the agreement, USAID awarded a $32.4 million task order to BearingPoint to continue this project through September 30, 2010. This task order had three objectives:

1. Enable meaningful participation of the SPLM in the Government of National Unity.

2. Strengthen the institutional structures of a transparent and accountable Government of South Sudan and the institutional structure of the Bank of Southern Sudan.

3. Strengthen key ministries in the Three Areas.[2]

The project went through significant changes from 2009 to 2010. In May 2009, Deloitte Consulting LLP (Deloitte) purchased the division of BearingPoint that managed the Core task order. In June 2009, USAID reevaluated the strategy of the project and restructured it based on where the Government of South Sudan needed to be by 2011, when South Sudan would decide whether to become an independent nation. As part of this strategy reevaluation, USAID/South Sudan commissioned four reports between December 2009 and August 2010 that analyzed, evaluated, and assessed different aspects of Core. Consequently, Core replaced many of its advisers, as well as the chief of party and deputy chief of party.

One of these reports was Core's midterm evaluation, conducted by Management Systems International in September 2009 and issued in January 2010. This evaluation found that the Government of South Sudan, with assistance from BearingPoint/Deloitte, had made the notable achievement of building both the physical and procedural components of a government from scratch. In addition, the evaluation found that Deloitte's monitoring and evaluation system did not capture the kind of information on which to base any conclusions. To address this

[1] SPLM was founded as the political wing of the Sudanese People's Liberation Army, which began fighting for South Sudanese independence in 1983 and is currently the ruling party in South Sudan.

[2] The Three Areas were Nuba Mountains, Southern Blue Nile, and Abyei, but they were transformed into the two Sudanese states of Southern Kordofan and Blue Nile. The Comprehensive Peace Agreement made protocols specific to these states.

weakness, the evaluation recommended that Deloitte revise its performance management plan (PMP) to include a causal framework and more outcome and impact indicators.

Through a number of modifications, USAID extended Core until March 31, 2012, and increased the cost ceiling to $72.9 million. Notably, a modification signed September 30, 2011, eliminated Objectives 1 and 3 and made the subobjectives under Objective 2 the objectives of the project. The objectives from October 1, 2011, through audit work in January 2013 were as follows:

1. Improve the decision-making process and communication capacity within the Government of South Sudan.

2. Implement sound public financial management policies, legislation, and processes in a transparent and accountable manner.

3. Strengthen the policies and capacity of the Bank of South Sudan.

4. Develop a legal drafting process and a legal and regulatory framework for the government that facilitate good governance and democratic processes.

5. Build the government's capacity to manage its oil resources.

USAID/South Sudan began the procurement process to identify successor projects in June 2010, and as late as November 2010 the mission thought these procurements would be complete by July 2011. USAID extended Core because of delays procuring the successor projects; however, procurements were still ongoing as Core approached its final extension date of March 31, 2012. Therefore, to preserve continuity, USAID issued a new task order, the Economic Growth Project in South Sudan (EGPSS), on February 15, 2012. EGPSS was scheduled to cost $6.3 million and end 6 months later, just long enough to complete these procurements. However, because successor project procurements were further delayed, USAID extended EGPSS to June 30, 2013, and increased the cost ceiling to $19.8 million.

As of January 2013, USAID had awarded a contract to Deloitte for a follow-on project to the democracy and governance component of Core, including work with the Ministry of Justice, Ministry of Cabinet Affairs, and Office of the President—Objectives 1 and 4 above. However, USAID was still in the process of awarding a follow-on contract for the economic growth component of Core.

This period of transition presented an opportunity to review Core's progress. Accordingly, the Regional Inspector General/Pretoria conducted this audit to determine whether USAID/South Sudan's Core Institutional Structures Project increased the capacity of the Government of South Sudan to govern effectively, inclusively, transparently, and accountably.

Performance report narratives, visits to offices within the Government of South Sudan, and auditor discussions with officials from USAID, the Government of South Sudan, and Core indicated that Core increased the capacity of the Government of South Sudan to govern effectively, inclusively, transparently, and accountably (page 5). Although external factors limited the project's progress, USAID and Deloitte were aware of these factors and worked to overcome them.

Although some impediments that limited the project's impact were outside USAID's and Deloitte's control, others were within their control:

- Procurement delays diminished the impact of Core. Although more than 500 days had passed since the request for proposals was issued, USAID had not awarded the successor project to Core. Because this issue relates to procurement-sensitive information, it is not included in this report.

- Performance monitoring was not adequate for EGPSS (page 6). Although the project task order required Deloitte to maintain performance indicators that allow USAID to measure the project's progress over time, Deloitte neglected reporting on some of them and modified targets for those that it did report on. Consequently, reported results' contribution to the project's stated objectives was unclear. The monitoring problems occurred primarily because the mission had not completed its monitoring and evaluation mission order. The lack of consistent performance reporting made it difficult to objectively assess the impact of these projects.

- Billing oversight was inadequate (page 7). Costs are only allowable if they are reasonable and comply with contract terms. However, USAID paid $601,990 in excess personnel costs, and $3,000 in fuel costs was wasted because of inadequate internal controls during 2012. The contracting officer's representative said that overbilling went unnoticed because she only reviewed billing to see if it generally looked right and experienced financial analysts were in short supply to assist her in verifying the costs billed to USAID.

- EGPSS did not integrate gender considerations (page 9). Although the task order required it, Deloitte did not integrate gender into Core because the mission lacked clear guidance on how to do that in South Sudan. Empowering women would further several objectives of Core. Therefore, the impact of the project was limited by the failure to properly integrate gender into project activities.

To resolve these problems, the audit recommends that USAID/South Sudan:

1. Finalize a monitoring and evaluation mission order to assist the program office and technical team in collecting and analyzing performance indicator data that supports decision making on the project's operations and effectiveness (page 7).

2. Conduct an Agency-contracted audit to determine whether billing under Core between 2010 and the end of the project complied with contract requirements (page 9).

3. Implement a written policy to periodically review Deloitte's administrative controls and support for expenses charged to USAID (page 9).

4. Determine the allowability of $604,990 in questioned costs ($601,990 ineligible and $3,000 unsupported) and recover from Deloitte any amounts determined to be unallowable (page 9).

5. Issue a mission order addressing gender integration (page 10).

6. Appoint a mission gender adviser to assist mission staff in implementing the Gender Equality and Female Empowerment Policy (page 10).

7. Implement written plans to integrate gender into each of Core's successor projects (page 10).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are in Appendix II, and our evaluation of them is on page 11.

# AUDIT FINDINGS

## Project Increased the Capacity of the Government of South Sudan

Performance report narratives, visits to offices within the Government of South Sudan, and auditor discussions with officials from USAID, the Government of South Sudan, and Core indicated that Core had increased the capacity of the Government of South Sudan to govern effectively, inclusively, transparently, and accountably. Notable accomplishments included:

- Setting up the South Sudan Ministry of Finance and Economic Planning's financial management information system, which allows the Government of South Sudan to manage budget, payments, and financial reporting.

- Helping the Bank of South Sudan acquire an accounting and payment system, necessary for it to function as a central bank, prior to South Sudanese independence.

- Assisting the Ministry of Petroleum and Mining in selling $3.3 billion of oil, the Government of South Sudan's first independent sales.

- Aiding the Ministry of Cabinet Affairs in reducing from 21 days to 2 days the time needed to distribute decisions and resolutions from meetings of the Council of Ministers.

For the entire period Core was operating in South Sudan, the country was in a state of flux—first war; then a subnational, autonomous government; and finally independence. The project started from scratch, but the Government of South Sudan built buildings, hired employees, and established operating procedures. Although progress was made, numerous impediments limited the project's accomplishments. Notably, civil servants in South Sudan were often illiterate and innumerate, and because positions were allocated not based on merit, but according to ethnic group, many staff lacked the technical skills needed for their positions. The Core midterm evaluation report noted that this lack of skills led ministry officials to complain that ten people were doing 80 percent of the work while the rest were just "drinking tea." In addition, although Deloitte advisers were able to help South Sudan market their oil after independence, conflict with Sudan over these oil exports—the only exports from South Sudan—led to a cessation of oil through the pipeline in January 2012, eliminating 98 percent of the Government of South Sudan's revenues.

USAID and Deloitte were aware of external factors limiting the project's progress and worked to overcome them. For example, the project trained civil servants in English to improve literacy and worked with ministries to distribute the workload by defining position descriptions and formalizing organizational structures. Deloitte was also assisting the Ministry of Petroleum and Mining with a feasibility study for a pipeline that does not go through Sudan. Advisers also helped government officials implement austerity measures to keep key functions operational as long as possible without oil revenues.

## Performance Monitoring Was Not Adequate for Interim Project

According to USAID's Automated Directives System (ADS) 203.3.2, performance monitoring is a continuous process of gathering performance indicator data to determine "whether desired results are being achieved and whether implementation is on track" for a project or activity. Performance monitoring continues throughout an activity or project. Further, ADS 203.3.2 states, "Performance indicators are the basis for observing progress" and comparing actual results with expected results. Monitoring thus helps determine how the project is progressing.

In line with these ADS requirements, the EGPSS task order required Deloitte to prepare a PMP "capable of tracking, documenting, monitoring, and reporting . . . the targets/indicators for all Project components." The task order further stipulated that the PMP must allow USAID to measure the project's progress over time. Finally, the task order noted, "USAID will evaluate the Contractor's progress and success based on whether or not the tangible results and development impact envisaged by the Project are achieved."

Despite these requirements, Deloitte had not prepared any reporting consistent with its PMP under EGPSS. The audit disclosed two kinds of inconsistencies:

- The project's PMP included an extensive set of indicators, but in the only report prepared under EGPSS, Deloitte included only a fraction of them in some sections. The section for Objective 3 in the January 2013 report included 7 of the 14 PMP indicators and presented 5 indicators that were not in the PMP updated May 2012. The section for Objective 5 included only 6 of 17 indicators from the PMP.

- Deloitte significantly lowered and raised targets. For example, the PMP set a target of 90 bills passed by the National Legislature by December 31, 2012, while the January 2013 report indicated the target was only 60 bills. This lowering caused the actual result to fall short of the target by only 1 bill instead of 31. Yet on another measure, tax revenue, Deloitte raised the target from 40 million South Sudanese pounds (about $13.5 million at the official exchange rate) to 120 million South Sudanese pounds (about $40.5 million at the official exchange rate). This change brought the target closer to—yet still below—the reported actual figure of 162 million South Sudanese Pounds (about $54.7 million at the official exchange rate).

The monitoring problems occurred primarily because of the project's short duration and a lack of monitoring and evaluation procedures at USAID/South Sudan. Because USAID/South Sudan envisaged EGPSS lasting only 6 months, the task order did not require periodic reports to include quantitative results. When it extended the task order, the mission did not add these reporting requirements. In addition, the mission had not issued its monitoring and evaluation mission order—a key guidance tool. If the mission had had a monitoring and evaluation mission order, mission officials might have included performance reporting as a requirement under the task order. This key performance monitoring tool was absent because the mission was not established as an independent office until July 2011. As an independent mission, USAID/South Sudan was in the process of implementing new mission orders, but these were in draft as of January 2013.

Although the contracting officer's representatives interacted with Deloitte almost every day, without regularly monitoring consistent indicators, they could not objectively assess the impact of these projects. Given that the mission is beginning to implement the successor projects to Core, it is an ideal time for USAID/South Sudan to improve its policies and procedures for monitoring and evaluation. Therefore, the audit makes the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/South Sudan finalize a monitoring and evaluation mission order to assist the program office and technical team in collecting and analyzing performance indicator data that supports decision making on the project's operations and effectiveness*.

## Billing Oversight Was Inadequate

Federal Acquisition Regulation 31.201-2 states that costs are allowable only if they are reasonable and comply with contract terms. Additionally, the regulation states that a contracting officer can disallow costs if the contractor does not have documentation to demonstrate that they are reasonable and comply with contract terms. ADS 630.2 states that the contracting officer's representative was responsible for administratively approving all vouchers submitted by Deloitte, although 630.3.2.1 explains that final validation of pricing is the responsibility of the mission's financial management office.

Despite these requirements, the audit found a number of billed costs that were unreasonable or did not comply with contract terms, as detailed below.

**Deloitte Billed at Higher-Than-Approved Rates.** The Core and EGPSS awards stipulated fixed rates that should be billed for American advisers and authorized negotiated rates for non-American advisers. Although rates for non-American advisers are variable, the contracting officer must approve the rates in advance;[3] approval allows the mission to exercise control over which people are selected and at what rate. Despite this requirement, every voucher submitted to USAID from January to June 2012 contained some inflated rates: Deloitte charged USAID at rates above those approved by the USAID contracting officer for some employees on each voucher. Deloitte officials said they had used the wrong methodology in calculating the rates for the EGPSS task order because Deloitte had to rush to meet USAID's deadline. To address these mistakes, Deloitte requested on April 24, 2012, that USAID approve the revised calculation, but USAID did not do so until June 14, 2012. Overcharges based on the unapproved rates between start-up and mid-June amounted to $234,003 in 2012.

**Non-American Advisers Cost USAID More Than American Advisers.** The contracts with Deloitte contained approved rates for Deloitte advisers, both American and non-American. Notably, the fixed rates for American advisers included fringe benefits, while USAID reimbursed Deloitte separately for non-American advisers' fringe benefit expenses. Therefore, the total rate charged to USAID for non-American advisers is the negotiated rate plus the fringe benefit expenses. These contracts do not allow Deloitte to change the American adviser rates, but rates for non-American advisers vary based on the actual salary of the adviser. The contracts explicitly state that variable rates are only applicable to non-American advisers. Federal Acquisition Regulation 31.201-3 notes: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." However, Deloitte billed USAID $329,530 extra in 2012 to employ non-Americans

[3] These requirements are included in the Core indefinite quantity contract, Section F, paragraph b, and in the EGPSS task order, Section F.3(e).

instead of Americans. This excess charged for non-Americans is unreasonable; although they were qualified for the positions, a prudent person would not have paid extra to hire a non-American instead of an American because there was no programmatic benefit to doing so. In addition, USAID paid $38,457 extra because Deloitte billed a U.S. citizen as a non-American, although doing so is prohibited by the contract.

**Deloitte Did Not Safeguard Fuel.** The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that one of the purposes of internal control is to safeguard assets. Deloitte used over 2,800 liters of fuel, worth about $8,000, between December 8 and December 15, 2012. However, according to vehicle logs and typical generator use, the use of at least 1,000 liters of this fuel, worth over $3,000, was not reasonably justified by Deloitte's documentation. The fuel was stored onsite at the Deloitte offices in unsecured 200-liter drums. Although walls surrounded the office compound and a guard was always onsite, no controls existed to protect fuel or track its use. When the guard was alone in the compound, Deloitte had no way to prevent that guard from stealing fuel from the drums, and no way to quickly detect theft. Additionally, no internal controls prevented drivers from siphoning fuel from the vehicles. As of the audit, no one had alleged theft, but internal controls were insufficient to detect it if it had occurred. Controls were also insufficient to demonstrate that fuel was used for project purposes. Despite these weaknesses, USAID paid almost $300,000 in fuel for generators and vehicles for Deloitte in 2012.

These administrative issues arose because the contracting officer's representative said she only reviewed billing to see if it generally looked right and experienced financial analysts were in short supply to assist her in verifying the costs billed to USAID. The mission was in the process of hiring a third financial analyst, and the other two had been on the job less than a year. Experienced financial analysts would help the representatives with their oversight responsibilities. A financial review conducted by the mission in 2010 resulted in about $1.2 million in questioned costs related to the hiring and rates of employees that had not been approved by the contracting officer, duplicate allowances paid to advisers, and arithmetic errors. Since that review was completed, the mission has not disallowed any charges claimed by Deloitte even though problems have persisted.

Related to the internal controls over fuel, the chief of party said that project staff wanted to improve the controls, but they had anticipated leaving their offices at the end of the project. Because they anticipated a completion date of September 30, 2010, weaknesses may have persisted for years.

**Questioned Costs (audited)**

| **Type** | | **Amount ($)** |
|---|---|---|
| Ineligible Costs | | |
| Unapproved Rates | 234,003 | |
| Non-American Premium | 329,530 | |
| American Charged as Non-American | 38,457 | 601,990 |
| Unsupported Costs | | |
| Fuel | | 3,000 |
| **Total** | | **604,990** |

As shown in the table, poor oversight of Deloitte's billing and internal controls led to $604,990 in questioned costs. A prior financial review helped the mission identify about $1.2 million in questioned costs and internal control weaknesses. A detailed audit of Deloitte's financial management would better identify internal control weaknesses and potential questioned costs. In addition, future periodic financial reviews could help USAID monitor billing for the successor projects to Core to address questionable billing practices promptly. Accordingly, this audit makes the following recommendations.

***Recommendation 2.*** *We recommend that USAID/South Sudan conduct an Agency-contracted audit to determine whether billing under the Core Institutional Structures Project between 2010 and the end of the project complied with contract requirements.*

***Recommendation 3.*** *We recommend that USAID/South Sudan implement a written policy to periodically review Deloitte's administrative controls and support for expenses charged to USAID.*

***Recommendation 4.*** *We recommend that USAID/South Sudan determine the allowability of $604,990 in questioned costs ($601,990 ineligible and $3,000 unsupported) and recover from Deloitte Consulting any amounts determined to be unallowable.*

## Interim Project Did Not Integrate Gender Considerations

Although ADS 201[4] has required missions to address gender issues during project planning since 2009, USAID's *Gender Equality and Female Empowerment Policy*, published in March 2012, requires every mission to adopt and maintain a mission order that, among other things, addresses gender equality and empowering women in USAID programs. This includes integrating the mission's gender policy throughout the program cycle, making sure that operating plans and performance plans and reports incorporate gender considerations. Further, the policy requires missions to appoint a mission gender adviser to assist mission staff in implementing it.

Although it was signed in February 2012, just before the policy took effect, USAID/South Sudan's EGPSS task order stated that gender issues must be taken into account at all levels of the project so that reforms—including political participation, access to finance, and legal protection—and their consequences affect men and women equitably. Moreover, the task order stated that the project should "consciously address the need for gender balance in areas such as advocacy, training, economic development, and other areas of the Project as appropriate."

Despite the requirements in the EGPSS task order, Deloitte did not integrate gender into Core. While the project reported some outputs by gender—for example, Deloitte reported training 225 men and 33 women from October 1, to December 31, 2013, on budget execution—performance reporting did not include any indicators to track the impact of project activities on gender issues. Additionally, a mission official said that the mission and the contractor tried to ensure that activities such as training classes reflected the percentages of men and women who worked at

[4] As of July 2, 2013, this requirement is in ADS 201.3.15.3. Previously, this requirement was included in ADS 201.3.9.3.

the South Sudan institutions or departments that were receiving the training. However, this strategy ignored gender discrepancies within the institutions and did not redress the gender imbalance, as expected by the task order.

Deloitte had not adequately integrated gender because, given the short time frame, implementing a formal strategy to integrate gender would have been difficult. The prior task order included far fewer specific requirements for gender integration and ended before the Agency's March 2012 gender policy was effective. When EGPSS was signed in February 2012, it included more specific requirements, but USAID envisaged EGPSS lasting only 6 months. Consequently, Deloitte did not allocate substantial resources to addressing these requirements.

In addition, the project did not properly integrate gender because the mission lacked clear guidance on how gender should be integrated in South Sudan. USAID/South Sudan did not have a mission order or a mission gender adviser to guide project teams on issues related to gender integration.

USAID's Policy Framework 2011-2015 states, "Societies that empower women experience faster economic growth [and] manage public resources more effectively." Empowering women would advance several of Core's objectives. Thus, the impact of the project was limited by the failure to integrate gender into project activities.

As of January 2013, the mission had awarded one successor project to Core and was in the process of awarding another, making this a pivotal time to integrate gender considerations. Accordingly, the audit makes the following recommendations.

***Recommendation 5.*** *We recommend that USAID/South Sudan issue a mission order addressing gender integration.*

***Recommendation 6.*** *We recommend that USAID/South Sudan appoint a mission gender adviser to assist mission staff in implementing the Gender Equality and Female Empowerment Policy.*

***Recommendation 7.*** *We recommend that USAID/South Sudan implement written plans to integrate gender into each of the successor projects to the Core Institutional Structures Project.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/South Sudan agreed with and made management decisions on all seven recommendations and took final action on three. Recommendations 2, 3, 4, and 7 remain open pending the completion of the planned Agency-contracted audit, reporting of limited financial reviews, collection of sustained questioned costs, and the completion of the work plan for one of the successor projects. Our detailed evaluation of management comments follows.

**Recommendation 1.** USAID/South Sudan agreed to issue a monitoring and evaluation mission order to assist the program office and technical team in collecting and analyzing performance indicator data that supports decision making on the project's operations and effectiveness. The mission order was issued on April 29, 2013. As a result, a management decision has been reached and final action taken.

**Recommendation 2.** USAID/South Sudan agreed to conduct an Agency-contracted audit to determine whether billing under Core between 2010 and the end of the project complied with contract requirements. The mission prepared the statement of work and issued a solicitation on June 12, 2013. The target date for final action is April 30, 2014. As a result, a management decision has been reached.

**Recommendation 3.** USAID/South Sudan agreed to implement a written policy to periodically review Deloitte's administrative controls and support for expenses charged to USAID. The mission established a policy to conduct limited financial reviews that focus on internal controls. Mission officials scheduled reviews for both successor projects, with reports expected by January 31, 2014. As a result, a management decision has been reached.

**Recommendation 4.** USAID/South Sudan agreed to determine the allowability of $604,990 in questioned costs ($601,990 ineligible and $3,000 unsupported) and recover from Deloitte any amounts determined to be unallowable. The supervisory contracting officer sustained $153,847.77 of the questioned costs ($150,847.77 ineligible and $3,000 unsupported) and issued a bill of collection for this amount on June 21, 2013, with an expected collection date of September 30, 2013. As a result, a management decision has been reached.

**Recommendation 5.** USAID/South Sudan agreed to implement a mission order addressing gender integration. The mission issued this mission order on March 14, 2013. As a result, a management decision has been reached and final action taken.

**Recommendation 6.** USAID/South Sudan agreed to appoint a mission gender adviser to assist mission staff in implementing the Gender Equality and Female Empowerment Policy. The mission's appointment of a gender adviser was reflected in the point of contact list updated June 24, 2013. As a result, a management decision has been reached and final action taken.

**Recommendation 7.** USAID/South Sudan agreed to implement written plans to integrate gender into each of the successor projects to Core. One of the projects included plans to integrate gender in its work plan, which was approved on May 21, 2013. The other project had not yet finalized its work plan. The target date for final action is August 31, 2013. As a result, a management decision has been reached.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Pretoria conducted this performance audit in accordance with generally accepted government auditing standards. 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 in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/South Sudan's Core Institutional Structures Project increased the capacity of the Government of South Sudan to govern effectively, inclusively, transparently, and accountably. We audited project information from the award of the Core Institutional Structures Project to the previous contractor, BearingPoint, in 2006, but we limited our review of performance reporting and specific activities performed by the current contractor, Deloitte Consulting—which took over from BearingPoint in 2009—to fiscal years 2012 and 2013.

The audit team performed this audit at USAID/South Sudan; Deloitte offices; and South Sudanese ministries in Juba, South Sudan. We conducted audit fieldwork from January 14 to January 31, 2013. USAID fully obligated $72.9 million under the original Core task order for the period August 22, 2006, to March 31, 2012. Under EGPSS, USAID fully obligated $19.8 million for the period February 15, 2012, to June 30, 2013. In total, USAID had obligated $92.7 million toward Core as of the beginning of audit fieldwork on January 14, 2013. We reviewed project activities for all $92.7 million obligated for Core; invoices totaling almost $16.3 million; and data reporting for the EGPSS contract, to which USAID had obligated $19.8 million and reimbursed Deloitte $13.6 million for the period through December 31, 2012.

In planning and performing the audit, the audit team assessed management controls related to USAID/South Sudan's reporting processes and controls that were significant in the context of the audit objective. The following is a list of the significant controls assessed.

- We reviewed the mission's annual certification required by the Federal Managers' Financial Integrity Act of 1982 for internal control weaknesses affecting the audit. The weaknesses noted in the certification included insufficient personal property management, staff training, and program monitoring. We incorporated these risks into the audit program as applicable.

- We reviewed the mission's data quality assessments for indicators USAID used for external reporting, but these indicators were of limited use for evaluating the project, as discussed on page 6.

- In addition to indicators reported in the data quality assessments, we reviewed indicators reported by Deloitte that USAID did not report externally and that, therefore, did not require data quality assessments.

- We reviewed several evaluations issued in 2009 and 2010 that assisted us in determining the status of and future plans for the project.

Evidence used included interviews with officials from USAID/South Sudan, Deloitte, and South Sudanese ministries, as well as mission and contractor reports, such as PMPs, project implementation reports, and work plans.

## Methodology

To determine whether USAID South Sudan's Core was increasing the capacity of the Government of South Sudan to govern effectively, inclusively, transparently, and accountably, the audit team reviewed evaluation reports, periodic performance reports, work plans, project implementation reports, and PMPs. We examined and assessed indicators for the objectives and subobjectives reported in the PMPs, although performance indicator reporting was unavailable until the final week of audit fieldwork, and reporting was inconsistent with the PMP prepared in May 2012. These weaknesses limited the usefulness of Deloitte's performance reporting.

The audit assessed the project performance based on qualitative information since timely, reliable performance reporting was not available. Given limited usefulness of the project's performance indicators, we did not have a materiality threshold for the audit, nor did sampling support our conclusions.

In answering the audit objective, we interviewed key USAID/South Sudan personnel; Deloitte staff and advisers in South Sudan; support staff from offices in Nairobi, Atlanta, and Washington; officials from the Ministries of Finance and Economic Planning, Petroleum and Mining, Cabinet Affairs, and Justice; and officials from the Bank of South Sudan.

Utilizing reported findings from a project financial review completed in 2010, we reviewed Deloitte's operations to determine whether it had effective internal controls over voucher and payroll processing, asset management, and approvals for pay grades, per diem, and allowances. Our review included examining support for these expenses reimbursed by USAID.

We also assessed crosscutting areas such as gender integration and the risk of trafficking in persons. To determine the impact that the project's activities have had on concerns identified in the mission's gender assessment, we interviewed mission and contractor officials and examined reported gender indicator data. Although South Sudan has a very high risk of trafficking in persons, given the scope of work for the project, we assessed the overall risk of the project being involved in trafficking as low.

# MANAGEMENT COMMENTS

June 24, 2013

**MEMORANDUM**

**TO**: Robert W. Mason
Regional Inspector General/Pretoria

**FROM**: William R. Brands /s/
Mission Director, USAID/South Sudan

**SUBJECT**: Audit of USAID/South Sudan's Core Institutional Structures Project
(Report No. 4-668-13-XXX-P)

This memorandum conveys USAID/South Sudan's management response to the above referenced audit report of the Core Institutional Structures Project (CISP) dated May 24, 2013. The Mission thanks the audit team for its professionalism and concurs with the seven recommendations. The Mission's responses to the RIG's specific audit recommendations are detailed below.

***Recommendation 1.*** *We recommend that USAID/South Sudan finalize a monitoring and evaluation mission order to assist the program office and technical team to properly collect and analyze data for its performance indicators in order to assist with making appropriate decisions regarding the project's operations and effectiveness*.

USAID/South Sudan agrees with this recommendation. The Mission issued Mission Order 203-2 Performance Monitoring (Attachment 1) on April 29, 2013. On May 3, 2013, the Mission awarded the Monitoring and Evaluation Support Project which will complement the Mission's monitoring activities. This includes technical support for site visits as well as Agency-mandated high-quality evaluations in alignment with the Evaluation Policy. We believe that the above addresses Recommendation 1 and request its closure.

***Recommendation 2.*** *We recommend that USAID/South Sudan conduct an agency contracted audit to determine whether billing under the Core Institutional Structures Project was in compliance with contract requirements between 2010 and the end of the project.*

USAID/South Sudan agrees with this recommendation. The Mission drafted a Statement of Work (SOW) for a financial audit of USAID resources incurred in South Sudan managed by Deloitte under the CISP program (GEG-I-00-04-00004-00, Task Order 8) from January 2010 to March 2012 and the Economic Governance Task Order (AID-668-TO-12-00005) from February 2012 to December 2012. The Regional Inspector General's Office in Pretoria (RIG/Pretoria) approved the SOW on May 20, 2013. The solicitation was issued on June 12, 2013. The purchase order is expected to be issued by July 30, 2013. The audit report is expected to be issued by March 31, 2014. Final action is expected by April 30, 2014.

***Recommendation 3.*** *We recommend that USAID/South Sudan implement a written policy to periodically review Deloitte's administrative controls and support for its prior expenses charged to USAID.*

USAID/South Sudan agrees with this recommendation. As noted by the report, the Financial Analysis unit of the Office of Financial Management recently hired a third Financial Analyst to join the other two Financial Analysts who recently completed their first year with USAID/South Sudan. In April 2013, USAID/South Sudan hired an experienced Third Country National Personal Services Contractor as the Financial Analyst Trainer. A major focus area is training the Financial Analysts and Procurement Management Specialists to conduct limited financial reviews that will focus on an organization's internal controls and how they can be strengthened in addition to compliance with agreement terms (Attachment 2). The successor projects to the Core Institutional Structures Project are the Project on Good Governance in the Republic of South Sudan (PROGRESS, AID-668-C-13-00001) and Strengthening Core Economic Governance Institutions II (CORE II, AID-668-C-13-00005). The team plans to conduct a limited financial review of PROGRESS in July 2013 and of CORE II in October 2013. Reports will be issued and the team will track implementation of any findings with the project teams. Final action is expected by January 31, 2014.

***Recommendation 4.*** *We recommend that USAID/South Sudan determine the allowability of $604,990 in questioned costs ($601,990 ineligible and $3,000 unsupported) and recover from Deloitte Consulting any amounts determined to be unallowable.*

The questioned costs related to billing of personnel and fuel costs. The audit team found that some of the non-American advisors had been billed and paid at higher rates than the approved rates, non-American advisors had cost USAID more than American advisors, a dual nationality advisor had been billed as a non-American instead of as an American, and Deloitte had not safeguarded fuel.

USAID/South Sudan's review of the questioned costs is summarized in Attachment 3. Using this information, the Supervisory Contracting Officer determined that the higher rates should be considered approved as of Deloitte's request on April 24, 2012, the fringe benefits paid to non-American advisors were allowable, the dual nationality American advisor should have been billed as an American, and internal controls for fuel usage were insufficient (Attachment 4). The determination is summarized below:

| Type of Questioned Cost | Questioned Cost as per Draft Audit ($) | Disallowed ($) | Allowed ($) |
|---|---|---|---|
| Ineligible Costs: | | | |
| Unapproved Rates | 234,003.00 | 111,323.36 | 122,679.64 |
| Non-American Premium | 329,530.00 | | 329,530.00 |
| American Incorrectly Charged | 38,457.00 | 39,524.41 | |
| Unsupported Costs: | | | |
| Fuel | 3,000.00 | 3,000.00 | |
| | 604,990.00 | 153,847.77 | 452,209.64 |

The determination was sent to Deloitte on June 21, 2013. The Bills for Collection (Attachment 5) were generated in Phoenix on June 21, 2013 and forwarded to Deloitte on June 22, 2013. Final action is expected by September 30, 2013.

***Recommendation 5.*** *We recommend that USAID/South Sudan implement a mission order addressing gender integration.*

USAID/South Sudan agrees with the recommendation. The Mission has documented the procedures and is currently implementing them as outlined below. The Mission issued Mission Order 200-1 Gender Integration (Attachment 6) on March 14, 2013. The mission order outlines how gender equality and female empowerment are advanced throughout the program cycle which includes strategic planning, reporting, design, and assessments. The Mission has a gender focal point in the Program Office who was announced in a Mission Notice on June 17, 2013. The Mission's draft Revised Transition Strategy covering the period from 2013 to 2016 incorporates gender across all four development objectives. The strategy is expected to be finalized later in 2013. The recent portfolio review conducted in May 2013 discussed gender issues in each of the sectors. The Mission's new Monitoring and Evaluation support contract will conduct a gender analysis, updating the most recent analysis from 2010, and hire a Gender Advisor who will further assist in mainstreaming gender in programming. We believe that the above actions fully address Recommendation 5 and request its closure.

***Recommendation 6.*** *We recommend that USAID/South Sudan appoint a mission gender advisor to assist mission staff in implementing the Gender Equality and Female Empowerment Policy.*

USAID/South Sudan agrees with the recommendation. On June 24, 2013, the Mission's Point of Contact list which included naming the gender advisor was updated and issued (Attachment 7). We believe that the above addresses Recommendation 6 and request its closure.

***Recommendation 7.*** *We recommend that USAID/South Sudan implement written plans to integrate gender into each of the successor projects to the Core Institutional Structures Project.*

USAID/South Sudan agrees with the recommendation. PROGRESS outlined how the program will integrate gender considerations as well as many of the challenges faced in its work plan (Attachment 8) that was approved on May 21, 2013. CORE II is currently finalizing its work plan with the Contracting Officer's Representative with approval expected by July 31, 2013. Final action is expected by August 31, 2013.

USAID/South Sudan requests closure of Recommendations 1, 5, and 6 and RIG/Pretoria's concurrence that management decisions have been reached on Recommendations 2, 3, 4, and 7. We look forward to strengthening the successor projects to the Core Institutional Support Project through the implementation of the audit's recommendations.

**U.S. Agency for International Development**
**Office of Inspector General**
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
**http://oig.usaid.gov**