



September 27, 2004

MEMORANDUM

FOR: Director, Middle East Affairs, Asia Near East Bureau,
David McCloud

FROM: Regional Inspector General/Cairo, David H. Pritchard /s/

SUBJECT: Survey of USAID's Activities Funded Under the Middle East
Partnership Initiative (Report No. 6-298-04-002-S)

This memorandum transmits our final report on the subject survey. In finalizing the report, we considered your comments on our draft report and have included them as Appendix I.

We did not audit the activities or the data provided within this report. As a result this is not an audit report. This survey information forms the basis for the Office of Inspector General (OIG) audit strategy intended for fiscal year 2005.

I appreciate the cooperation and courtesy extended to our staff throughout the survey.

Background

The Middle East Partnership Initiative (MEPI), a Presidential initiative, provides a framework and funding for working with the Arab world to expand educational and economic opportunities, empower women, and strengthen civil society and the rule of law.

The Department of State structured MEPI into the following four pillar areas:

- **Economic Pillar** - MEPI policy and programs support region-wide economic and employment growth driven by private sector expansion.

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- **Political Pillar** - MEPI supports an expanded public arena where democratic voices can be heard in the political process, the people have a choice in governance, and there is respect for the rule of law.
 - **Education Pillar** - MEPI supports education systems that enable all people to acquire the knowledge and skills necessary to compete in today's economy and improve the quality of their lives.
 - **Women's Pillar** - MEPI works toward economic, political, and educational systems where women enjoy full and equal opportunities.

The Department of State's Bureau of Near Eastern Affairs, Partnership Initiative Office, manages the MEPI policy and programs, and works closely with agencies across the U.S. Government including USAID.

The Department of State reviews USAID programs in the Middle East to ensure that USAID mission programs support the four reform areas mentioned above. The Department is responsible for defining the activity that MEPI appropriations will fund. The Department also coordinates with USAID in identifying the activities that will align with one of the MEPI pillars. Once an activity is decided, the Department signs an allocation memo which describes the activity and the amount of funding and sends a Congressional Notification to Congress for the 15-day notification period. In cases where MEPI funding supplements funding for a USAID program, USAID generally prepares the Congressional Notification.

The Administration has committed \$129 million to MEPI from the fiscal year 2002 and 2003 Economic Support Funds. The fiscal year 2004 supplemental appropriations included an additional \$89 million for MEPI, of which the Department of State obligated \$60.5 million as of August 2004. Of the \$60.5 million, the Middle East Partnership Initiative Office will obligate and manage \$56.7 million and the Department of State's Bureau of Educational and Cultural Affairs will obligate and manage the remaining \$3.8 million.

Three different management approaches to MEPI-funded activities exist. These are: 1) activities managed and implemented by the Department of State; 2) activities that the Department is responsible for managing but in practice are managed by USAID Missions; and 3) activities that USAID is responsible for obligating the funds, managing and implementing.

Of the total \$129 million in MEPI funding, USAID's Pillar bureaus and overseas missions are responsible for administering \$86.4 million. The balance of the funds is the responsibility of the Department of State, Department of Commerce, and the Department of the Treasury.

USAID awards a significant number of MEPI activities to U.S.-based organizations, profit and non-profit, audited under the Office of Management and

Budget (OMB) Circular A-133 program¹ or by the Defense Contract Audit Agency. Furthermore, as of August 2004, USAID is the cognizant agency responsible for the audits of the majority of the implementers who are required to report annually on Federal awards.

**Survey
Objective**

We conducted this survey to become knowledgeable about the Middle East Partnership Initiative (MEPI) and to develop a strategy that will ensure adequate audit coverage of USAID-related development activities that are implemented under the initiative.

Discussion

USAID is responsible for implementing 71 MEPI activities throughout 14 countries within the Middle East and North Africa. The dollar amount for each individual activity is relatively small, ranging from \$40 thousand to \$5 million. Therefore, we assessed the risk exposure as low at the activity level.

However, significant challenges exist at the higher program level primarily due to the process of how MEPI is programmed and directed through the Department of State. We met with representatives from the USAID Asia and Near East Bureau and the Department of State Office of Inspector General to gain an understanding of the management process and challenges with implementing the program. According to these discussions, the following factors present challenges in USAID's ability to manage MEPI activities.

- The Department of State's focus is short term, identifying opportunities on a year by year basis. The Department of State's strategy is to program a list of activities for implementation.
- The Department of State's Bureau of Near Eastern Affairs does not manage by objectives. The individual awards define what is to be accomplished without the existence of an activity design or performance indicators at a strategic level.
- In some cases during the early stages of the MEPI program, the Department of State's Bureau for Near Eastern Affairs was unable to put sufficient time and resources into program planning and, as a result, USAID was faced with challenges when programs were handed to it for implementation.
- MEPI activities are relatively small in dollars, however each management unit requires a fixed level of resources to award and manage the activity.

¹ OMB Circular A-133 further defines and clarifies the financial audit requirements for nonfederal entities. The Circular includes audit requirements that exceed the minimum audit requirements set forth in the Government Auditing Standards. To fulfill OMB Circular A-133 requirements, USAID relies on nonfederal auditors (independent accounting firms) to audit its U.S.-based grantees.

Consequently, MEPI activities are management intensive. However, the Department of State has not approved funding for operating expenses for USAID’s management of these activities.

- The implementing agencies for MEPI activities are predominantly U.S. based non-profit organizations with which USAID has past experience. USAID’s past performance results with these organizations will have an impact on USAID’s ability to manage the activities. Based on USAID’s most recent information, a significant amount of the funding for the activities has not yet been obligated and the implementing partners not yet identified.
- USAID representatives both at the mission and at headquarters use manual records to track the status of MEPI activities. No key identifiers exist within the budgetary or accounting data to pull system generated information on MEPI funded activities.

The bulk of USAID managed activities are awarded through two USAID Washington bureaus, and the remaining funds are awarded directly through USAID missions. The following table summarizes the allocated MEPI funding levels by USAID offices.

Table 1 – Allocated MEPI Funding by USAID Offices

	FY 02	FY 03	Total
Washington Bureaus	\$13,838,425	\$54,966,855	\$68,805,280
USAID/Lebanon	300,000	-	300,000
USAID/Jordan	-	1,640,000	1,640,000
USAID/Morocco	4,903,000	5,515,000	10,418,000
USAID/Yemen	2,700,000	2,500,000	5,200,000
	<u>\$21,741,425</u>	<u>\$64,621,855</u>	<u>\$86,363,280</u>

*Above data has not been audited.

The two Washington bureaus; Bureau for Democracy, Conflict and Humanitarian Assistance and Bureau for Economic Growth, Agriculture and Trade; have awarded \$49.3 million of the \$68.8 million MEPI funding allocated to USAID as of August 2004. USAID missions have awarded \$17.6 million of the MEPI funding. USAID has not programmed the remaining \$19.5 million of MEPI funding as of August 2004.

The data collected during this survey forms the basis for the OIG audit strategy in fiscal year 2005.

Conclusion

The OIG plans to conduct two performance audits in fiscal year 2005 to determine if USAID effectively and efficiently manages the MEPI activities in accordance with USAID policies and Department of State requirements. Based on the risk exposure at the program level, the OIG plans to conduct one audit at a

bureau level and one at the mission level. The OIG will ensure financial audit coverage of MEPI funds through its ongoing financial audit program.

Performance Audits - From a performance audit perspective, a large volume of activities exist where the individual dollar value is relatively small and does not warrant specific audit focus at the activity level. However, based on the number of challenges underlying the management of the MEPI program, the OIG plans to design an audit to determine whether selected USAID operating units manage cumulative activities effectively and efficiently. (Refer to the discussion section above for information on program challenges).

In fiscal year 2005, the OIG plans to conduct audits of a USAID Washington bureau responsible for implementing MEPI activities and at USAID/Morocco. In determining whether USAID is managing these activities efficiently and effectively the OIG plans to define specific audit procedures to:

- Review the design and implementation process for the use of MEPI funds and the degree of involvement and control that USAID has in developing the statements of work and managing the activities.
- Determine if USAID's MEPI-funded activities are meeting their objectives.

Financial Audits - From a financial audit perspective, the OIG will coordinate with USAID's Office of Acquisition and Assistance to ensure that MEPI funds awarded to U.S. based non-profit and for-profit organizations are included in the audits of federal awards. As of August 2004, USAID had not awarded a large number of awards to local organizations. Therefore, it was premature to identify specific local recipient audits.

Future funding levels for MEPI are as yet unknown. These unknowns limit projecting this strategy beyond the current fiscal year. The OIG anticipates revising this strategy as more concrete information on MEPI becomes available.

To successfully carry out this audit strategy, the OIG will coordinate its efforts with USAID Washington bureaus, missions, private accounting firms and other important partners and stakeholders.

- *Coordination with the Asia and Near East Bureau* – The OIG will provide briefings to the Asia and Near East Bureau on a request basis.
- *Coordination with Congressional Staff* – In addition to submitting copies of pertinent audit reports, the OIG will provide briefings to interested Congressional staff on the progress of its audit program on a request basis.
- *Coordination with Government Accountability Office* – The OIG will provide the Government Accountability Office with a copy of this strategy, ensure that

our respective audit programs are complementary, and share important audit results.

- *Coordination with Defense Contract Audit Agency* – The USAID OIG will work with Defense Contract Audit Agency to provide additional audit coverage of the home-office costs of U.S. contractors, as needed.
- *Coordination with the Department of State*– The OIG will coordinate with the Department of State's Bureau of Near Eastern Affairs, Partnership Initiative Office, and the Office of Inspector General to verify information gathered and to coordinate audit issues as needed.

**Evaluation of
Management
Comments**

Asia Near East Bureau officials from the Middle East Affairs Office provided comments to the draft report. RIG/Cairo considered the comments within the final report.

**Management
Comments**

MEMORANDUM

DATE: September 13, 2004

TO: David Pritchard, Regional Inspector General/Cairo

FROM: David McCloud, Director, Office of Middle East Affairs /s/

SUBJECT: Draft Memorandum on USAID/OIG's Survey of USAID's Activities Funded under the Middle East Partnership Initiative (MEPI)
(Report No. 6-263-04-00x-S)

The Middle East Affairs Office of the Asia Near East Bureau appreciates the opportunity to comment on the OIG's FY05 audit strategy for USAID's activities funded by MEPI. The following are MEA's remarks on the draft survey report:

- We believe it is important for the report to note the three different management approaches to MEPI-funded activities. These are: 1) activities managed and implemented by State; 2) activities that State is responsible for managing but in reality are managed by USAID Missions; and 3) activities that USAID is responsible for obligating the funds, managing and implementing the programs.
- Most of the Congressional Notifications (CNs) for MEPI are prepared by the State Department. In cases where MEPI funding is supplementing funding for a USAID program, USAID generally prepares the CN.
- The allocation memo for the FY 04 funds was signed on August 4, 2004. A copy was faxed to OIG on September 8, 2004.
- To more accurately reflect MEPI program design and implementation practice which generally varies depending on the pillar, we believe the third challenge on page 3, should be modified to read as follows:

“In some cases during the early stages of the MEPI program, the Department of State’s Bureau for Near East Affairs was unable to put sufficient time and resources to program planning and as a result USAID was faced with challenges when programs were handed to it for implementation.”

- Challenge number 5 is unclear and may require more elaboration.
- We recommend that the third procedure included in the Section on Performance Audits be amended to read as follows:

“Determine if USAID’s MEPI-funded activities are meeting the objectives of the MEPI program.”