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United States Government Accountability Office  
Washington, DC 20548

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September 29, 2006

The Honorable Mitch McConnell  
Chairman  
The Honorable Patrick J. Leahy  
Ranking Minority Member  
Subcommittee on State, Foreign Operations,  
and Related Programs  
Committee on Appropriations  
United States Senate

The Honorable Jim Kolbe  
Chairman  
The Honorable Nita M. Lowey  
Ranking Minority Member  
Subcommittee on Foreign Operations,  
Export Financing, and Related Programs  
Committee on Appropriations  
House of Representatives

*Subject: Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza*

The United States has worked for decades to achieve a resolution to the Israeli-Palestinian conflict through initiatives such as the 1993 Oslo Accords and the more recent 2003 Roadmap for Peace. During fiscal years 1993 through 2005, the United States provided more than \$2 billion in assistance to Palestinians in the West Bank and Gaza, including nearly \$275 million in fiscal year 2005, to help achieve this goal. In particular, the 2005 assistance was provided to support the president of the Palestinian Authority, elected in January 2005, and to facilitate the Israeli disengagement from parts of the West Bank and Gaza, among other things. This assistance, primarily administered by the U.S. Agency for International Development (USAID), has been directed mainly toward five development sectors: economic growth, water and infrastructure, democracy and governance, health, and higher education.

In recent years, the United States has taken several steps to help ensure that U.S. resources, including its aid to the West Bank and Gaza, do not support terrorist activities. On September 23, 2001, President Bush issued an executive order prohibiting the support

of any organizations or individuals that have been designated as terrorists.<sup>1</sup> Since 2001, to implement the executive order and other antiterrorism provisions in various subsequent appropriations acts,<sup>2</sup> USAID, in consultation with the Department of State, Congress, and others, developed a number of provisions to help ensure that its assistance is not delivered to or through terrorists. In addition, the USAID mission for the West Bank and Gaza (the mission) developed policies and procedures to implement antiterrorism provisions for the awards it administers. The provisions that were in effect for assistance delivered through contracts, grants, and cooperative agreements active in 2005<sup>3</sup> included (1) the vetting of certain non-U.S. prime awardees and subawardees for terrorist connections; (2) certifications by all prime awardees and subawardees of grants and cooperative agreements that they have not assisted and do not assist terrorists; and (3) a clause in all awards and related subawards prohibiting the support of terrorists (antiterrorism clause) and clauses in all prime awards prohibiting (a) the use of U.S. funds to recognize or honor terrorists (naming clause) and (b) the provision of cash to the Palestinian Authority (cash clause).

Responding to a 2005 mandate to the Comptroller General of the United States, we examined fiscal year 2005 assistance to the West Bank and Gaza to, among other things, ensure that the required antiterrorism measures were implemented.<sup>4</sup> In addition, we reviewed the financial audit reports of West Bank and Gaza contractors and grantees (and significant subcontractors and subgrantees) prepared by the USAID Office of the Regional Inspector General–Cairo (RIG) in response to a 2003 mandate and subsequent

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<sup>1</sup>Executive Order 13224, 66 Fed. Reg. 49070 (Sept. 23, 2001) pursuant to the authorities of the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.); the National Emergencies Act (50 U.S.C. 1601 et seq.); sec. 5 of the United Nations Participation Act of 1945, as amended (22 U.S.C. 287c) (UNPA); and sec. 301 of title 3, United States Code.

<sup>2</sup>Consolidated Appropriations Resolution of 2003, Pub. L. No. 108-7, § 568(b), 117 Stat. 11, 207 (2003); Consolidated Appropriations Act of 2004, Pub. L. No. 108-199, § 566(b), 118 Stat. 3, 195 (2004); and Consolidated Appropriations Act of 2005, Pub. L. No. 108-447, §559(b), 118 Stat. 2809, 3019 (2004).

<sup>3</sup>For the purposes of this report, we define active awards as awards for which obligations or expenditures were made in fiscal year 2005. According to West Bank and Gaza mission documents, vetting involves checking the names of individuals and organizations that implement USAID projects against databases and other information sources to determine if they are involved with terrorism. Throughout this report, we use the term “*prime awardees*” to refer to organizations that receive USAID contracts, grants, or cooperative agreements to implement U.S. assistance projects. “*Subawardees*” refer to organizations that receive subcontracts or subgrants from prime awardees for work on U.S. assistance projects. In addition to using contracts, grants, and cooperative agreements, USAID provides assistance through consulting agreements, letters of understanding, memorandums of understanding, and purchase orders. See enclosure I for definitions of these terms.

<sup>4</sup>Emergency Supplemental Appropriations for Defense, the Global War on Terror, and Tsunami Relief, 2005, Pub. L. No. 109-13, § 2103, 119 Stat. 231, 266 (2005). Other issues related to assistance delivered by USAID’s West Bank and Gaza mission—including information on obligations, expenditures, and the impact of the assistance—will be covered in a future report.

mandates.<sup>5</sup> Among other things, the audits examined the awardees' compliance with antiterrorism provisions.

To address these objectives, we reviewed the relevant laws and executive orders and USAID's directives, internal memorandums, operating procedures, and guidance for assistance-related antiterrorism measures. We focused on USAID's implementation of procedures related to vetting and antiterrorism certification and clauses. We developed a database of USAID West Bank and Gaza awards to capture and summarize their characteristics and requirements. We traveled to Tel Aviv, Israel, and met with cognizant West Bank and Gaza mission officials, including the USAID Mission Director and his senior staff. We examined an unclassified USAID West Bank and Gaza mission database designed to help the mission manage its vetting, and we analyzed 99 USAID contracts, grants, and cooperative agreements and over 900 related subawards that were associated with awards active during 2005 to determine whether they had the required certifications and clauses. We also met with the mission's staff responsible for overseeing the various awards and related subawards. In addition, we traveled to Cairo, Egypt, and met with USAID officials at the RIG and reviewed and analyzed the contents of 62 audit reports that it had completed, which addressed West Bank and Gaza assistance for awards active from 2002 through 2005 (with corresponding reports issued from 2004 through 2006). We conducted our review from October 2005 through August 2006 in accordance with generally accepted government auditing standards. (For further details of our scope and methodology, see enc. I.)

## **Results in Brief**

The mission's implementation of its antiterrorism requirements for vetting, certification, and clauses for awards active in fiscal year 2005 had certain limitations. However, the mission has taken, or is taking steps, to resolve many of these problems.

- Until June 2006, the mission did not routinely collect detailed identifying information on individuals, such as date and place of birth, or verify that information. Approximately 94 percent of the vetting results memorandums indicated that additional information, such as an individual's date and place of birth and an Israeli identification number, was needed for a more complete assessment. Further, we found that the mission had not established procedures, such as requesting some form of identification, to verify the accuracy of key individuals' names provided by

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<sup>5</sup>Since 2003, U.S. appropriations acts (§ 568(b), 117 Stat. at 207; § 566(b), 118 Stat. at 195; § 559(b) 118 Stat. at 3019) have required that federal or nonfederal audits of all USAID contractors, grantees, and significant subcontractors and subgrantees in the West Bank and Gaza be conducted at least annually to ensure, among other things, compliance with U.S. antiterrorism provisions related to assistance for West Bank and Gaza. The USAID RIG determined the significance of subawardees based on the total value of the awards provided to the subawardee.

awardees.<sup>6</sup> The mission drafted a policy in June 2006 to collect additional identifying information and in its comments stated that it would take action to improve its ability to verify the information provided by awardees. In addition, in March 2006, although the mission added certain conditions that would trigger revetting of awardees, the mission eliminated a requirement to periodically re-verify certain awardees, thus reducing the chances of identifying terrorist connections with more recent intelligence information. However, in its comments on a draft of this report it agreed with our recommendation and has reinstated the periodic re-verification requirement.

- Data reliability issues, security weaknesses, and other problems with the mission's unclassified database, which is designed to record and track vetting results, limited its utility for management and oversight purposes. We found important data fields that were left blank or filled with inappropriate information. Also, a foreign service national developed the database counter to State internal regulations, and few safeguards were in place to control access to hard copies of the information stored in the database. In April 2006, a USAID team of information specialists began addressing these problems, and cognizant USAID officials told us they expect to have a more useful and secure unclassified vetting management database in operation later this year.
- Although the mission generally ensured that prime awardees signed the required certifications, many prime awards did not contain the required clauses and, until recently, the mission did not systematically verify that recipients of subawards signed the required certifications or that subawards contained the mandatory clauses. In some cases, the required clauses did not appear or had been added months or years after award initiation, including after our inquiry. Consequently, some prime awardees and subawardees may not have been aware of their contractual obligations to comply with certain antiterrorism provisions. In response to our observations, the mission revised its policy in March 2006 to require that before award approval, all prime awardees submit subawardee certifications as well as evidence that the required clauses were included in the subawards. The mission has not, however, clearly articulated how its antiterrorism provisions are applied to assistance agreements such as memorandums of understanding and consulting agreements, and as a result, it has applied these provisions inconsistently.

To address the 2003 mandate and subsequent related mandates for financial audits of West Bank and Gaza assistance, USAID's RIG contracted with audit firms in the region.<sup>7</sup>

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<sup>6</sup>The mission defines key individuals as those who have financial and management decision-making authority over the operations of the organization. USAID specifies that such individuals include the program manager or chief of party for the USAID-financed program; the principal officer and deputy principal officer of the organization (for example, executive director, deputy director, president, or vice-president); the principal officers of the organization's governing body (for example, chairman, vice-chairman, treasurer, and secretary of the board of directors or board of trustees); and any other person with significant responsibilities for administration of USAID-financed activities or resources.

<sup>7</sup>Up to \$1 million was provided to the USAID Office of the Inspector General in each fiscal year to conduct the audits.

The RIG added the requirement for reviewing antiterrorism provisions to its audits in supplementary guidance in 2003. Since then, the RIG has prepared 62 reports, issued from 2004 through 2006, based on the contract auditors' reviews. However, although the mandate was addressed, the RIG's financial audits did not help the mission ensure that awardees complied with the antiterrorism requirements before awards and subawards were entered into. In particular, the nature of the RIG's financial audits means the audits were not initiated until after the award had been implemented or, in some cases, completed. This means that any omissions in conducting the required vetting or ensuring that the antiterrorism certifications and clauses were in the awards, as required, were not found by the auditors until after the award had been entered into. In addition,

- The guidance to the RIG's contract auditors did not always reflect the mission's antiterrorism policies and procedures. For example, the 2003, 2004, and 2005 guidance directed auditors to check for a less detailed version of the antiterrorism clause than the mission was using.
- The October 2003 guidance provided that all subawards should be examined rather than a sample. However, this requirement was not in the guidance to auditors for 2004 and 2005. Unless the auditors were otherwise aware of the 2003 guidance, they may not have reviewed all subawards.

We are making several recommendations to the Director of U.S. Foreign Assistance and USAID Administrator to strengthen the mission's efforts to help ensure that U.S. assistance to the West Bank and Gaza does not support terrorist activities, including addressing limitations with the mission's vetting management database and developing antiterrorism policies and procedures for all its financial agreements. We also recommend that the Director of U.S. Foreign Assistance and USAID Administrator and the West Bank and Gaza mission, in cooperation with the RIG, develop a system to review awards and applicable subawards to help ensure that antiterrorism requirements are met before the financial agreements are implemented. This system should also ensure that the reviews (1) reflect the mission's policies and procedures at the time of the award and (2) have a consistent methodology for examining subawards.

In commenting on a draft of this report, USAID and the USAID Inspector General generally accepted four of our five recommendations. USAID noted that our fieldwork and the draft report were a positive contribution to improving and strengthening the West Bank and Gaza mission's antiterrorism provisions. However, the mission disagreed on our recommendation on the need to develop policies and procedures for applying antiterrorism provisions to other assistance agreements, such as memorandums of understanding and purchase orders. Although the mission added guidance regarding in-kind assistance to its mission order, USAID commented that further clarification for applying antiterrorism provisions to other assistance agreements such as memorandums of understanding was not needed. We believe that further clarification is needed in the mission order to ensure that antiterrorism provisions are correctly and consistently applied to all agreements. In addition, USAID noted that the mission has taken steps that address the intent of our recommendation to ensure compliance with antiterrorism provisions before awards and subawards are implemented.

## **Background**

The Palestinian territories, comprising the West Bank and Gaza, cover 2,402 square miles and have a combined population of 3.8 million people.<sup>8</sup> Gaza is administered by the Palestinian Authority, while the West Bank includes areas administered by the authority and Israel. (See fig. 1.)

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<sup>8</sup>The West Bank has a land area of 2,263 square miles and a population of about 2.4 million. Gaza has a land area of 139 square miles and a population of about 1.4 million.

**Figure 1: Map of West Bank and Gaza and Surrounding Countries**



Sources: GAO (data); Map Resources (map) and CIA World Factbook.

In 1993, the Oslo Peace Accords<sup>9</sup> were signed and USAID established its West Bank and Gaza mission in Tel Aviv. In September 2000, the second *intifada* (uprising) began and the Oslo peace process unraveled. Peace efforts were renewed in June 2002 when President George W. Bush outlined the principles that served as the foundation for a

<sup>9</sup>The accords called for the withdrawal of Israeli forces from Gaza and parts of the West Bank and affirmed the Palestinian right to self-government within those areas through the creation of the Palestinian Interim Self-government Authority. Palestinian rule would last for a 5-year interim period during which a permanent agreement would be negotiated (beginning not later than the third year of the interim period).

performance-based strategy called the *Roadmap for Peace*, which calls for an independent Palestinian state coexisting peacefully with the State of Israel. The United Nations (UN), the United States, the European Union, and Russia—known as the Quartet on the Middle East<sup>10</sup>—as well as Israel and the Palestinian Authority endorsed the strategy in April 2003. In January 2005, Mahmoud Abbas, a supporter of the peace strategy, was elected president of the Palestinian Authority. A year later, in January 2006, the Palestinian people elected a Hamas majority to the Palestinian Legislative Council. Hamas is designated as a terrorist organization by Israel, the United States, and the European Union. On January 30, 2006, the Quartet on the Middle East stated that its members would only provide support and assistance to the Hamas-led government if the government would agree to nonviolence, recognize the state of Israel, and respect previous Israeli-Palestinian peace agreements. As of September 2006, Hamas had not accepted these conditions.

Since 1993, the United States has provided more than \$2 billion to the West Bank and Gaza to support the Middle East peace process and encourage progress in reforming the Palestinian Authority.<sup>11</sup> The 2005 appropriation of \$274.4 million—the largest yearly amount of U.S. bilateral assistance for the West Bank and Gaza since the second intifada—was provided to, among other things, support the president of the Palestinian Authority, elected in January 2005, and to facilitate the Israeli disengagement from Gaza and four northern West Bank settlements. As of June 30, 2006, the West Bank and Gaza mission reported that it had obligated \$222.9 million in Economic Support Fund assistance<sup>12</sup> through various financial agreements active during fiscal year 2005 and had expended \$60.8 million. For fiscal year 2006, USAID reported that it had obligated just \$1.1 million and expended only \$139,000—reflecting the fact that U.S. assistance to the West Bank and Gaza has been frozen pending a comprehensive review. In April 2006, the Secretary of State announced a substantial reduction in assistance and redirected \$300 million to humanitarian, democracy promotion, and civil society activities. In June 2006, concerned that Hamas' influence was growing, the Congress directed that none of the funds appropriated under the Economic Support Fund in 2006 or any prior appropriation for foreign operations, export financing, and related programs may be obligated for assistance to the West Bank and Gaza until the Secretary of State reports to the Committees on Appropriations how the funds will be spent and that appropriate measures are in place to ensure that no funds will support terrorist activities.<sup>13</sup> On July

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<sup>10</sup>The quartet is involved in mediating the peace process between the State of Israel and the Palestinian Authority.

<sup>11</sup>These funds include \$121 million in direct budget support for the Palestinian Authority and \$1.3 billion to the UN Relief and Works Agency.

<sup>12</sup>The Economic Support Fund promotes the economic and political foreign policy interests of the United States by providing assistance to allies and countries in transition to democracy, supporting Middle East peace negotiations, and financing economic stabilization programs. Recent appropriations acts prohibit the provision of Economic Support Fund assistance in the West Bank and Gaza to support or recognize individuals or organizations involved in terrorism.

<sup>13</sup>See Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 Pub. L. No. 109-234, § 1304, 120 Stat. 418, 435 (2006). The act was signed into law on June 15, 2006.



21, 2006, the Secretary of State submitted the report to the committees. The report included a revised strategy that provided details on an assistance package totaling \$468 million.<sup>14</sup>

Since establishing its mission in the West Bank and Gaza in September 1993, USAID has directed assistance to the Palestinians toward five main development sectors: economic growth, water and infrastructure, democracy and governance, health, and higher education. It has supported these objectives through efforts such as, respectively, job creation programs, construction of reservoirs and roads, election support projects, projects to improve maternal and child health, and university scholarship programs. As a result of Hamas' election victory in January 2006, the terrorist organization's unwillingness to accept the conditions set by the Quartet, and continued attacks on Israel by Hamas' military wing, USAID reduced and redirected its overall assistance program and focused its assistance primarily on democracy support, health, education, and private sector development activities that would not provide political or economic gain to, or require contact with, the Hamas-led Palestinian Authority.

U.S. policy to prevent assistance from supporting known terrorists in the West Bank and Gaza is articulated in a 2001 executive order and several appropriations laws:

- *Executive Order 13224*, issued in September 2001, blocks property and prohibits transactions with persons who commit, threaten to commit, or support terrorism.<sup>15</sup>

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<sup>14</sup>The assistance includes \$50 million for Israel's use in easing the movement and access of Palestinian people and goods, while improving its security.

<sup>15</sup>Earlier executive orders concerning antiterrorism and the Middle East peace process include Executive Order 12947, 60 Fed. Reg. 5079 (Jan. 23, 1995), and Executive Order 13099, 63 Fed. Reg. 45167 (Aug. 20, 1998). Orders issued subsequent to Executive Order 13224 that amend it include Executive Order 13268, 67 Fed. Reg. 44751 (July 2, 2002), which, among other actions, added two individuals to the list of designated terrorists contained in Executive Order 13224, and Executive Order 13284, 68 Fed. Reg. 4075 (Jan. 23, 2003), which stipulates that the Department of Homeland Security be included in consultations about whether to designate an individual or organization as a terrorist and what actions should be taken to carry out Executive Order 13224.

- *The Consolidated Appropriations Acts of 2003, 2004, and 2005*<sup>16</sup> require that before obligating assistance under the Economic Support Fund for the West Bank and Gaza, the Secretary of State must establish vetting procedures to ensure that U.S. assistance is not provided to or through any individual, entity, or institution associated with terrorist activity. The 2005 law also prohibits the obligation of assistance under the Economic Support Fund to recognize or honor individuals who commit, or have committed, acts of terrorism.<sup>17</sup> In addition, the laws require that the USAID Administrator ensure that annual audits of all West Bank and Gaza contractors and grantees and significant subcontractors and subgrantees are conducted to, among other things, ensure compliance with the antiterrorism provisions contained in the acts.<sup>18</sup>

To implement Executive Order 13224 and the antiterrorism provisions in the various laws, USAID has issued several Acquisition and Assistance Policy Directives since 2002 that require an antiterrorism certification in all grants and cooperative agreements and an antiterrorism clause in all USAID awards.

- All prime awardees and subawardees of grants and cooperative agreements are required to certify that they do not provide material support or resources to individuals or entities engaged in terrorist activity or to those that support them.<sup>19</sup> The certification delineates steps that awardees are supposed to take to help prevent assistance from being provided to terrorists, such as (1) reviewing U.S. and UN terrorist lists to ensure that awardees do not appear on them and (2) developing reasonable monitoring procedures to safeguard against the diversion of assistance to support terrorist activity. This certification also provides for unilateral termination of the award by USAID if the terms of the certification are violated.
- The antiterrorism clause applies to all prime awardees and subawardees. It is intended to familiarize award recipients with the names contained in Executive Order 13224 and apprise them of their contractual responsibility to comply with executive orders and laws that prohibit transactions with, and provision of resources and

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<sup>16</sup> § 568(b), 117 Stat. at 207; § 566(b), 118 Stat. at 195; § 559(b) 118 Stat. at 3019. Similar language was included in the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006, Pub. L. 109-102, § 559(b), 119 Stat. 2172, 2221 (2005). Section 1304 of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, requires the Secretary of State to report to the Committees on Appropriations that appropriate procedures and safeguards exist to ensure that U.S. assistance is not provided to or through any individual, private or government entity, or educational institution that the Secretary knows or has reason to believe advocates, plans, sponsors, engages in, or has engaged in, terrorist activity.

<sup>17</sup> Consolidated Appropriations Act of 2005, Pub. L. No. 109-102, § 559(c), 118 Stat. 2809, 3019 (2004).

<sup>18</sup> § 568(c), 117 Stat. at 207; § 566(c), 118 Stat. at 195; § 559(d) 118 Stat. at 3019.

<sup>19</sup> This requirement can be found in USAID Acquisition and Assistance Policy Directives 02-19 (December 2002), 04-07 (March 2004), 04-14 (September 2004) and action memorandums.

support to, individuals and organizations associated with terrorism.<sup>20</sup> USAID also mandated the inclusion of an antiterrorism clause in awards to the UN. It states that the UN will make reasonable efforts to ensure that no USAID funds are used to provide support to individuals and organizations associated with terrorism.<sup>21</sup>

The West Bank and Gaza mission developed additional clauses to implement other legislated antiterrorism provisions that applied to its awards during 2005.<sup>22</sup>

- The “naming” clause, according to the mission’s regional legal advisor, is required in all prime awards initiated after December 2004. The clause was introduced in response to allegations that USAID was providing funding to institutions that were honoring terrorists. After these allegations, a provision was included in the 2005 appropriations law prohibiting the use of assistance appropriated under the Economic Support Fund to recognize or honor individuals who commit, or have committed, acts of terrorism.<sup>23</sup>
- The “cash” clause, according to the mission’s regional legal advisor, is required in all prime awards and prohibits the provision of direct cash assistance to the Palestinian Authority unless a presidential certification is filed. It was first introduced in the 1998 appropriations law and has been included in annual appropriations law since then.<sup>24</sup> The regional legal advisor told us that, although the mission originally required the cash clause as an anticorruption measure, the clause could now serve to help prevent the use of U.S. funds to support terrorism.<sup>25</sup>

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<sup>20</sup>The antiterrorism clause requirements are specified in Acquisition and Assistance Policy Directive 02-04 (March 2002) and in action memorandums.

<sup>21</sup>The UN version of the antiterrorism clause is specified in Acquisition and Assistance Policy Directive 03-04 (May 2003).

<sup>22</sup>On October 30, 2002, and July 3, 2003, the USAID West Bank and Gaza mission Regional Legal Advisor issued two action memorandums that were distributed to the mission summarizing the antiterrorism requirements in place at the time.

<sup>23</sup>§ 559(c), 118 Stat. at 3019.

<sup>24</sup>Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1998, Pub. L. No. 105-118, § 566, 111 Stat. 2386, 2428 (1997); Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999, Pub. L. No. 105-277, § 566, 112 Stat. 2681, 2681-194 (1998); Consolidated Appropriations Act of 2000, app. B, Pub. L. No. 106-113, § 563, 113 Stat. 1501, 1501A-105, (1999); Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2001, app. A, Pub. L. No. 106-429, § 562, 114 Stat. 1900, 1900A-46 (2000); Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2002, Pub. L. No. 107-115, § 555, 115 Stat. 2118, 2160 (2002); Consolidated Appropriations Resolution of 2003, Pub. L. No. 108-7, § 552, 117 Stat. 11, 2000 (2003); Consolidated Appropriations Act of 2004, Pub. L. No. 108-199, § 552, 118 Stat. 3, 188 (2004); Consolidated Appropriations Act of 2005, Pub. L. No. 108-447, § 550, 118 Stat. 2809, 3014; and Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2006, Pub. L. No. 109-102, § 550, 119 Stat. 2172, 2217 (2005).

<sup>25</sup>We analyzed the application of the cash clause in all USAID awards active in 2005 because of Hamas’ election victory and subsequent control of the Palestinian Authority.

Figure 2 presents the mission’s antiterrorism measures that applied to USAID contracts, grants, and cooperative agreements during fiscal year 2005.

**Figure 2: Antiterrorism Vetting, Certification, and Clause Requirements Applicable in Fiscal Year 2005, by Financial Agreement**

| Financial agreement/<br>awardee                                    | Antiterrorism requirements |               |                         |                  |                |
|--|----------------------------|---------------|-------------------------|------------------|----------------|
|  | Vetting                    | Certification | Antiterrorism<br>clause | Naming<br>clause | Cash<br>clause |
| <b>USAID contracts</b>   |                            |               |                         |                  |                |
| U.S. prime contractor  |                            |               | ✓                       | ✓                | ✓              |
| Non-U.S. prime contractor  | ✓                          |               | ✓                       | ✓                | ✓              |
| • U.S. subcontractor   |                            |               | ✓                       |                  |                |
| • Non-U.S. subcontractor   | ✓                          |               | ✓                       |                  |                |
| • U.S. subgrantee  |                            | ✓             | ✓                       |                  |                |
| • Non-U.S. subgrantee  | ✓                          | ✓             | ✓                       |                  |                |
| <b>USAID grants and<br/>cooperative agreements</b>                 |                            |               |                         |                  |                |
| U.S. prime grantee   |                            | ✓             | ✓                       | ✓                | ✓              |
| Non-U.S. prime grantee   | ✓                          | ✓             | ✓                       | ✓                | ✓              |
| • U.S. subgrantee  |                            | ✓             | ✓                       |                  |                |
| • Non-U.S. subgrantee  | ✓                          | ✓             | ✓                       |                  |                |
| <b>USAID grants and<br/>cooperative agreements<br/>with the UN</b> |                            |               |                         |                  |                |
| <b>UN prime grants and<br/>cooperative agreements</b>              |                            |               | ✓                       | ✓                | ✓              |
| • U.S. subcontractor   |                            |               |                         |                  |                |
| • Non-U.S. subcontractor   | ✓                          |               |                         |                  |                |
| • U.S. subgrantee  |                            |               |                         |                  |                |
| • Non-U.S. subgrantee  | ✓                          |               |                         |                  |                |

Source: GAO analysis of USAID and West Bank and Gaza mission guidance.

**West Bank and Gaza Mission’s Implementation of Antiterrorism Measures Had Limitations, but the Mission Is Taking Certain Corrective Actions**

The mission’s implementation of its measures for antiterrorism vetting, certification, and clauses in fiscal year 2005 had limitations that reduced its ability to help ensure that U.S. assistance does not support terrorist activities. However, the mission has taken steps, or is taking steps, to correct many of these limitations.

Mission’s Vetting Procedures Had Limitations, but It Has Taken Corrective Actions

The mission developed procedures for vetting awardees, but limitations in these procedures reduced the mission’s ability to help ensure that U.S. funds do not support terrorists. However, the mission has implemented actions to strengthen its procedures. The mission did not collect certain biographical information, leading to less-than-comprehensive vetting results. In addition, the mission had not developed procedures to verify the information provided by prime awardees or to ensure that prime awardees verified information provided by subawardees. Further, until March 2006, a higher dollar threshold for vetting some contractors and subcontractors reduced the numbers vetted,

and the mission eliminated a requirement for periodic revetting of awardees in early 2006. As a result of our review and consultations with congressional staff, the mission has made changes to strengthen its procedures, including collecting more complete biographical data, verifying the data provided by awardees, lowering the vetting threshold for contracts, and reinstating periodic revetting. Finally, several limitations associated with the mission's vetting management database have hampered the mission's oversight of the vetting process, although the mission has begun taking steps to correct these issues.

### West Bank and Gaza Mission Developed Vetting Procedures

According to mission officials, the mission's vetting procedures were the culmination of a process beginning in 2001 and based on consultations with Congress. These procedures represent an interagency effort forged from consultations with USAID's Asia and Near East Bureau, USAID's antiterrorism task force, the Office of the General Counsel, the U.S. Embassy in Tel Aviv, U.S. implementing partners, and Palestinian nongovernmental organizations (NGOs). Since then, the vetting procedures have been refined to account for concerns raised by these and other parties. The mission's vetting procedures state that the process begins when a non-U.S. prime awardee submits identifying information about itself and its key individuals, or information about a subawardee and its key individuals, to the mission. This information is entered in the mission's unclassified vetting management database<sup>26</sup> and is forwarded to U.S. officials in the U.S. Embassy in Tel Aviv who are responsible for the vetting. These officials consult available resources, such as counterterrorism databases, to determine whether the prime awardee, the subawardee, or any key individuals are linked to terrorism. Memorandums containing the vetting results are sent to the mission, which records the results in the vetting management database.

If the prime awardee, the subawardee, or any of their key individuals are found to have links to terrorism, the mission has the opportunity to collect and forward additional information. If the additional data fail to alter the initial vetting assessment results showing links to terrorism, the mission may submit an appeal to officials at the U.S. Embassy–Tel Aviv and the U.S. Consulate General–Jerusalem. Once a final determination has been made, the cognizant technical officer notifies the mission's contracting officer<sup>27</sup> and the awardee of the result and the mission's vetting management database is updated. The proposed award or subaward is denied if the final determination shows links to terrorist organizations or activity.

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<sup>26</sup>The mission database is intended to store information collected on organizations and individuals that require vetting, track the dates when vetting occurred, and record the vetting results.

<sup>27</sup>A cognizant technical officer performs functions that are designated by the contracting or agreement officer or is specifically designated by policy or regulation as part of contract or assistance administration. A contracting officer represents the U.S. government through the exercise of his or her delegated authority to enter into, administer, and terminate contracts and make related determinations and findings.

## Mission Did Not Gather Comprehensive Vetting Information or Have Procedures to Verify Information Collected from Awardees

Until recently, the mission's vetting of individuals associated with awardees was limited by the mission's decision not to collect certain identifying information for key individuals associated with prime awardees and subawardees. The mission changed this policy in June 2006. Similarly, the vetting process was limited because the mission did not have procedures to verify the information provided by prime and subawardees. However, the mission has indicated it will take steps to correct this problem.

USAID documents show that in 2001, the mission intended to collect detailed identifying information about Palestinian prime awardees and subawardees, including key individuals' names,<sup>28</sup> places and dates of birth, and identification numbers. However, according to USAID officials, a number of NGOs expressed concern about providing identifying information for key individuals because they feared that such efforts would be seen as intelligence gathering for the United States, Israel, or both. Consequently, the mission decided in 2002 to routinely collect only the four-part name.

In 2002, embassy vetting officials informed USAID that (1) a person's name alone is not sufficient proof of their identity, given how easily names may be changed or aliases used; (2) alternative spellings of Arabic names in English add another layer of uncertainty; and (3) additional data elements such as date of birth would increase the reliability of the vetting process. Since USAID provided only the four-part name, the vetting officials required that all of their vetting results be qualified. Our analysis showed that providing only the four-part name led to incomplete vetting results most of the time. In a random probability sample of 104 of 520 vetting results memorandums received by the mission since October 2002, 94 percent of all memorandums characterized the vetting based on only the four-part name as less than comprehensive.<sup>29</sup> The memorandums state that additional information, such as the individual's date and place of birth and Israeli identification number, was needed for a more complete assessment. In addition, we found that the mission had established no procedures to verify the accuracy of key individuals' names provided by awardees, such as requiring an Israeli identification card, passport, driver's license, or some other identification document.

In February 2006, USAID officials told us that when vetting with an individual's four-part name indicated terrorist associations, the mission would collect and provide additional information in an attempt to verify the initial vetting results. In June 2006, as a result of consultations with congressional staff, the mission drafted an amendment to its policy and now requires the collection of key individuals' dates and places of birth and Israeli

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<sup>28</sup>The four-part name comprises the individual's given name, the father's given name, the grandfather's given name, and the individual's surname.

<sup>29</sup>Our sample survey finding that vetting in 94 percent of the 520 memorandums was less than comprehensive has a 95-percent confidence interval of 88 to 98 percent.

identification numbers.<sup>30</sup> However, because the mission has not yet developed procedures to verify this information, it cannot be certain that the information in its database correctly identifies the key individuals to be vetted. In commenting on this report, USAID stated that the mission is following current policies and regulations, common throughout the U.S. government, which place the burden on the contractors and grantees to ensure the accuracy of information provided to the government. However, the mission, prompted by our findings, is planning to obtain an affirmative certification from awardees as to the accuracy of key individuals' names and other data provided.

### Other Procedural Limitations Have Hampered Vetting

Until March 2006, a higher dollar threshold limited the number of awards that were vetted, resulting in the vetting of fewer individuals and organizations. Also, in March 2006, the mission eliminated a requirement to periodically revet awardees, which may preclude the revetting of some awardees after an initial clearance. Based on our review and other factors, USAID has taken action to strengthen its vetting procedures.

#### *Vetting Dollar Threshold*

In fiscal years 2001 through 2003, the mission required vetting for all non-U.S. contractors and subcontractors, as well as their key individuals, for awards valued at \$25,000 or more.<sup>31</sup> However, the mission's July 2003 action memorandum raised this threshold to \$100,000. We found that as a result of this increase, non-U.S. organizations and individuals associated with 34 contracts totaling approximately \$2.1 million were not vetted during the period August 2003 through February 2006. According to the mission's Regional Legal Advisor, mission officials raised the vetting threshold in 2003 in part because they were concerned that vetting was limiting the mission's ability to meet urgent humanitarian needs in the West Bank and Gaza. In addition, the lower vetting threshold had not identified any non-U.S. contractor associated with terrorism. Nevertheless, responding to increased pressure to prevent U.S. assistance from reaching terrorists, the mission lowered the vetting threshold back to \$25,000 in March 2006.

#### *Periodic Revetting*

The mission's current policy regarding revetting of individuals and organizations does not provide for the possibility that terrorist associations may develop over the duration of an award. Prior to March 2006, mission guidance required that awardees be automatically revetted every 3 years. However, because most prime awards and subawards do not last 3 years, the mission dropped the revetting requirement from its

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<sup>30</sup>The amendment states that mission order 21 encouraged the submission of additional data but did not require it. As of September 2006, the mission was awaiting clearance on privacy act and paper reduction approvals associated with the amendment of mission order 21.

<sup>31</sup>All recipients of grants and cooperative agreements have been subject to vetting requirements, regardless of the dollar value of the award, since vetting began in 2001.

guidance in March 2006. These March 2006 vetting procedures required that individuals and organizations be vetted once—prior to award approval. The vetting results were considered valid for the award’s duration. The procedures also introduced additional conditions that would cause awardees to be revetted. These conditions included changes in key individuals, if an extension of the award is proposed, or if information is provided to USAID that indicates that an organization or its key individuals have been or may currently be involved in terrorist activity.

This procedure does not take into account the fact that intelligence regarding terrorist affiliations changes over time and that such information may not be provided to USAID. For example, according to mission officials, new intelligence information in 2005 showed possible links to terrorists, including Hamas, for six organizations that previously had been cleared. Five of these organizations had received U.S. assistance through multiple subawards and had been vetted and cleared by U.S. Embassy vetting officials several times. The new intelligence information was received after three of the subawards had been completed.<sup>32</sup> One award was terminated based on the validation of the new information and the remaining two organizations were cleared through additional vetting.

Although the resources needed for vetting increase with the frequency of vetting, intelligence officials stated that periodic revetting is needed to help ensure that individuals and organizations are not involved in terrorism. Periodic revetting would allow USAID to proactively seek new information about awardees that had not met any of the conditions contained in the mission’s procedures that trigger revetting. In its comments, USAID stated that, as a result of our review, it has reinstated a periodic revetting requirement.

#### Limitations in the Mission’s Vetting Management Database Have Hindered Its Utility, but the Mission Is Taking Corrective Action

A number of limitations associated with the mission’s vetting management database—unreliable data, a lack of adherence to security policies, insufficient technical documentation, and the mission’s low prioritization of the database—have constrained the mission’s management and oversight of the vetting process. Since our review, the mission has begun taking steps to resolve many of these limitations.<sup>33</sup>

#### *Unreliable Data*

Our review of the database revealed several issues that call into question the data’s reliability.

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<sup>32</sup> One of these three organizations was found to have links to terrorist organizations upon application for another award.

<sup>33</sup>The vetting management database and the information it contains are considered unclassified.



- At least one of the names in the four-part name was missing from the name fields in more than 2,595 of the database’s nearly 8,800 records.
- Inappropriate data appeared in more than 1,000 records. In these records, fields designed to display key individual titles with decision-making and fiduciary responsibilities as defined by USAID (such as president, executive director, or treasurer) contained the names of Middle Eastern countries or titles such as “office boy” and “administrative assistant.”<sup>34</sup>
- Data fields could be overwritten, and the system lacked an audit trail to record changes to critical data. Thus, important historical data, such as the date of a vetting request, could be removed inadvertently when records were updated.

### *Security Issues*

In January 2006, the USAID RIG conducted a review of the mission’s vetting procedures and recommended that relevant application and security controls be implemented. When we followed up on the RIG’s work, we found several remaining weaknesses in the security of the vetting management database.

- Vetting reports, containing the names of key individuals identified as having links to terrorism and the organizations they served, were stored in an unlocked filing cabinet. As a result, the mission’s foreign service nationals and other staff without a need to know had unrestricted access to this information.<sup>35</sup>
- USAID had not obtained required approvals for a Palestinian foreign service national to design and develop the mission’s vetting management database.<sup>36</sup>
- Because the mission did not classify the database as a major application (that is, an application that was critical to USAID’s operations), the mission did not consider the

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<sup>34</sup>The database contains 1670 records associated with organizations and 8,772 records associated with key individuals.

<sup>35</sup>According to the mission’s October 2002 action memorandum, information in the database should be available only to those with an official need for access. Much of the information contained in the database is also contained in these paper files.

<sup>36</sup>According to State Department guidance (12 Foreign Affairs Manual 633.1), under certain conditions, foreign nationals are not to develop, modify, or perform maintenance on software used on State computer systems without specific diplomatic security authorization. The information management officers responsible for State’s computer systems, both in the United States and abroad, must obtain authorization before such work is begun. USAID’s information systems security personnel stated USAID works to comply with FAM 633.1 and the mission should have consulted with information security personnel prior to developing the database.

relevance of application and security controls in maintaining its database, including the requirements outlined in USAID Automated Directives System Section 545.<sup>37</sup>

### *Insufficient Technical Documentation*

Although the mission backs up the database daily to allow it to restore the database in the event of a system failure, we found that the mission had not developed accompanying technical documentation. This documentation would help ensure that data were consistently defined and that the database could be rebuilt in the event of a system failure.<sup>38</sup> The minimum amount of documentation required is a data dictionary or the equivalent information associated with a database management system, including a description of the data elements and their relationship.<sup>39</sup>

### *Low Priority*

No office within the mission was formally designated as the database owner, as required.<sup>40</sup> As a result, the database was shifted among five different offices within the mission over a 5-year period, which may have contributed to staffs' lack of understanding of the database capabilities and operation. For example, the individual responsible for operating the system at the time of our review was unaware of a database instruction manual that described how to enter information and retrieve reports on the status of vetting submissions. In addition, the foreign service national employee who had managed the unclassified vetting management database since March 2005 lacked the security clearances needed to communicate directly with vetting officials about vetting results—adding inefficiencies to the vetting process.

### *Corrective Actions*

Since our review of the West Bank and Gaza mission's vetting management database, the mission has taken several steps to correct many of the limitations we identified.

- In March 2006, the mission hired a U.S. direct-hire employee with a security clearance to manage the vetting process.

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<sup>37</sup>According to USAID information systems security personnel, the criteria in effect when the database was developed did not require the system to be classified as a major application.

<sup>38</sup>USAID Automated Directive 502.5.6a states that USAID database applications should comply with Code of Federal Regulations (CFR) Title 36, 1234.20(b). According to the CFR, agencies must maintain adequate and up-to-date technical documentation for each electronic information system that produces, uses, or stores data files.

<sup>39</sup>In database management systems, a data dictionary is a file that defines the basic organization of a database, including a list of all files in the database, the number of records in each file, and the names and types of each field.

<sup>40</sup>Automated Directive System, sec. 545.

- In April 2006, as a result of the Regional Inspector General’s earlier review and our observations, USAID headquarters sent information technology specialists and the USAID counterterrorism coordinator to review the database and related vetting procedures. Based on that review, USAID plans to implement a more robust and secure database by November 2006.<sup>41</sup>
- The mission has moved the vetting database to the Office of Contracts Management, where the award and vetting processes can be better integrated.

Mission Did Not Ensure that All Antiterrorism Certifications and Clauses Were Completed before Awards Were Approved

Although the mission generally ensured that prime awardees of grants and cooperative agreements certified that they have not assisted and do not now assist terrorists, it did not ensure that applicable contracts, grants, and cooperative agreements included the antiterrorism, naming, and cash clauses. In addition, the mission lacked a system for verifying, before award approval, that subawardees had signed the required certifications and that subawards contained the required clauses. Based on our review, the mission has implemented procedures to verify that certifications are signed and clauses are included in subawards. However, the mission’s policies on how its antiterrorism requirements apply to awards other than contracts, grants, and cooperative agreements is unclear.

Most Prime Awardees Signed Certifications, but the Mission Did Not Verify Subawardee Certifications

The West Bank and Gaza mission generally ensured that prime awardees of grants and cooperative agreements signed the required antiterrorism certification;<sup>42</sup> the required certifications were signed for all of the 46 applicable prime awards that we reviewed. However, although it has required since April 2003 that all subgrantees also sign the certification, until recently the mission did not verify that prime awardees collected subgrantee certifications before they gave funds to the subgrantees. About one-fourth of the 177 certifications for applicable subgrants that we reviewed were signed after the subgrant start date, and 11 of the certifications were signed 6 months to more than a year after subgrant approval. According to mission officials, prime contractors and grantees are responsible, as part of their due diligence in receiving and administering awards, to develop and maintain award files, including all required or relevant preaward certifications and representations. They are also legally obligated to adhere to laws and regulations, emphasizing those in their subawards that ensure the proper use and

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<sup>41</sup>A prototype of the system was undergoing refinement and testing in September 2006.

<sup>42</sup>The certification requirement is in AAPD 02-19 and subsequent revisions and mission action memorandums. NGOs initially raised concerns about the language contained in the certification and their potential liability for subawardee compliance. Some refused to sign it altogether. Moreover, the Palestinian Legislative Council’s Economics Committee in May 2004 published a report that discouraged Palestinian NGOs from signing the certification because it considered the requirement an affront to its sovereignty and did not want any of its assistance to be conditioned. USAID made revisions to the certification after lawyers representing NGOs persuaded the agency to change the language. These changes resulted in more Palestinian NGOs signing the certifications.

accountability of U.S. funds. Consequently, the mission stated that it is primarily the responsibility of the prime awardees to ensure that required certifications are contained in subawards. However, in responding to our observation that it lacked a system to verify compliance, in March 2006 the mission revised its policy to require that all prime awardees submit subgrantees' certifications to the mission before award approval.

### Some Prime Awards and Subawards Did Not Contain Required Clauses

Although the mission required for fiscal year 2005 that all prime awards contain the antiterrorism, naming, and cash clauses and all subawards contain the antiterrorism clause, some awards did not include all the applicable clauses. As a result, some prime awardees and subawardees may not have been aware of their responsibilities outlined within these clauses. Similarly, prime awardees may not have been aware that they were not to use U.S. funds to honor terrorists or provide U.S. cash assistance to the Palestinian Authority.<sup>43</sup>

#### *Prime Awards*

While the West Bank and Gaza mission required that all prime awards contain the antiterrorism, naming, and cash clauses, we found that many did not include all three clauses. As table 1 shows, most of the awards that we reviewed included the antiterrorism clause, including the UN version of this clause when applicable. However, half of the awards did not contain the naming clause and more than one in five did not contain the cash clause.

**Table 1: Percentages of USAID West Bank and Gaza Prime Awards that Contained Required Clauses**

| Clause        | Percentage with clause |
|---------------|------------------------|
| Antiterrorism | 96                     |
| Naming        | 50                     |
| Cash          | 78                     |

Source: GAO analysis of USAID data.

Notes: We reviewed 99 awards that were active during 2005. See enclosure I for more information on our sampling methodology.

The 96 percent includes the UN-specific antiterrorism clause.

#### *Subawards*

The mission did not verify that subawards contained the antiterrorism clause or require them to contain the naming and cash clauses. The mission stated that existing regulations and policies do not require the mission to verify the inclusion of certain

<sup>43</sup> According to the mission, subsequent to our review, the mission has verified that all current and active awards contain all three clauses.

clauses prior to making a subaward. Instead it is primarily the responsibility of the prime awardee to ensure that required clauses are contained in the subawards. However, as a result of our review, the mission now requires prime awardees to provide the mission with copies of the pages of the subawards containing the required clauses.

- *Antiterrorism clause.* Although the mission has required since 2002 that prime awardees insert the antiterrorism clause in all subawards, the mission did not maintain lists of all current subawardees, including the type, amount, and duration of the subawards, and did not routinely check for the antiterrorism clause. As a result, until revising its policy in March 2006, the mission had no way to determine the extent to which prime awardees were complying with the requirement to include the clause in subawards. Mission officials stated that it was the prime awardees' responsibility to ensure that all subawards included the required clause and that the mission used annual audits conducted by the RIG to verify whether the prime awardees had included the antiterrorism clause in all subawards. However, in commenting on a draft of this report, RIG officials stated that the mission should have its own verification system and not use RIG audits for this purpose. Thirty-nine (about 10 percent) of the 393 applicable subawards, which were associated with the prime awards active in 2005 that we reviewed, did not contain the antiterrorism clause at the subaward start date. In six of these subawards, the clause was added 2 or more years after the start date.<sup>44</sup> With the issuance of Mission Order 21 in March 2006, the mission now requires prime awardees, including the UN, to provide copies of the subaward sections containing the antiterrorism clauses.
- *Naming clause.* The naming clause was not required in subawards for fiscal year 2005. With the issuance of Mission Order 21, the mission now requires that all subawards include the clause.
- *Cash clause.* The mission did not require the cash clause in subawards active in 2005. However, the Regional Legal Advisor stated that West Bank and Gaza subawardees are nonetheless legally obligated to adhere to the federal requirement on which the clause is based. In commenting on a draft of this report, the mission stated that it has modified all ongoing prime and subawards to include the clause and that the clause will be required in all future subawards.

#### Mission Antiterrorism Policies for Some Agreements Unclear

Although the mission has developed policies and procedures for applying antiterrorism requirements to contracts, grants, and cooperative agreements, it has not clearly delineated how its antiterrorism provisions apply to certain other agreements used to transfer assistance. These include consulting agreements, letters of understanding, memorandums of understanding, and purchase orders (see enc. V for definitions of these

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<sup>44</sup>USAID did not provide documentation for 24 of the subawards; consequently, inclusion of the antiterrorism clause could not be verified.

terms). We found that prime awards active in 2005 contained subawards that were used to transfer more than \$5 million in assistance through these types of agreements.

The regional legal advisor told us that without clear policies and procedures for these other agreements, the mission applied its antiterrorism provisions inconsistently. For example, the regional legal advisor stated that the mission's antiterrorism provisions applied to consulting agreements as they would to subcontracts. However, he also stated that the consulting agreements did not need to include the mandatory antiterrorism clause, which the mission requires in all subcontracts. Further, according to a mission official, USAID's Office of Transition Initiatives required that recipients of in-kind assistance<sup>45</sup> through memorandums of understanding were supposed to sign the antiterrorism certification. However, the mission did not enforce this requirement until USAID's Office of the General Counsel instructed the mission to require all in-kind assistance recipients to sign the antiterrorism certification. In our examination of subaward information provided by prime awardees, we found purchase orders with the antiterrorism clause and others without. Similarly, we found memorandums of understanding with the antiterrorism certification and others without.

Although the mission amended Mission Order 21 to address issues involving in-kind assistance, the order does not clearly address how the mission's antiterrorism provisions apply to the other agreements. In commenting on a draft of this report, mission officials stated that there is no need to specify other types of agreements by name in its mission order because the mission order's language is broad enough to cover all awards that would provide assistance whether cash or in-kind. We found that the language in the mission order broadly defined "awards" as any contract, grant, or cooperative agreement and any cash or in-kind assistance provided by USAID or an implementing partner in any form. However, the language in the order describing the types of agreements that require the antiterrorism certification and clause is very specific. For example, the order states that the certification requirement applies to all grants and cooperative agreements, and the clause requirement applies to all contracts, grants, and cooperative agreements. There is no mention of other types of agreements. Consequently, this inconsistency between the level of specificity in the award definitions and the descriptions of certain antiterrorism provisions leaves their application to other types of agreements open to interpretation.

### **USAID Complied with the Mandate to Audit Awardees, but the Audits Did Not Help Ensure Compliance with Antiterrorism Provisions before Awards Were Implemented**

To address the 2003 mandate and subsequent related mandates to complete financial audits of prime awardees and significant subawardees in fiscal years 2003 through 2005, USAID's RIG in Cairo, Egypt, contracted with Palestinian audit firms and the Palestinian

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<sup>45</sup>The mission defines in-kind assistance as assistance provided in the form of goods and services, such as medical supplies and equipment.

offices of international audit firms.<sup>46</sup> Overall, the audits focused on compliance with financial and accounting requirements—examining the fund accountability statement, identifying whether award costs were allowable and reasonable, and evaluating the awardee’s internal controls. The audits also reviewed compliance with various agreement provisions, laws, and regulations, including the applicable requirements for vetting, certification, and clauses.<sup>47</sup>

As of June 2006, the RIG issued 62 reports based on the contract auditors’ reviews for fiscal years 2003 through 2005. However, even though the mandate was addressed, the audits’ antiterrorism reviews were of limited utility to the mission for ensuring compliance with antiterrorism provisions prior to award implementation. This is primarily because the audits were not initiated until after the award had been implemented. In addition, the RIG’s guidance to its contract auditors did not always reflect the mission’s antiterrorism policies and procedures and, in 2004 and 2005, did not address certain methodological guidance issued in October 2003.

### The RIG’s Antiterrorism Compliance Reviews Were Not Initiated Until after Awards Were Implemented

The timing of the RIG’s financial audits and certain other issues limited their usefulness to the mission for determining whether awardees had complied with the antiterrorism requirements. Because the primary focus of the RIG’s audits was financial, the audits were not initiated until after the award had been implemented or, in some cases, completed. This means that any shortcomings or omissions in conducting the required vetting or ensuring that the antiterrorism certifications and clauses were in the awards or subawards, as required, would not have been found by the auditors until after the award or subaward had been made. As a result, the mission would not have learned of any instances of noncompliance identified by the RIG’s auditors until after the award start date or, in some cases, until after the award’s conclusion.

In addition, as directed by the mandate, the RIG’s audits focused on contractors and grantees (and significant subawardees) implementing U.S. assistance programs in the West Bank and Gaza. However, some prime awardees in fiscal years 2002 through 2005 administered several awards. As a result, once an award to a particular contractor, grantee, or significant subawardee had been audited, other awards to the same awardee would not necessarily have been examined, and compliance with antiterrorism provisions for those awards or significant subawards would not have been reviewed.

Moreover, about one-third of the RIG’s audit reports issued in fiscal years 2004 through 2006 did not clearly state which antiterrorist provisions were examined, if any, or did not

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<sup>46</sup>To conduct the audits, up to \$1 million was provided in each fiscal year to the USAID Office of the Inspector General.

<sup>47</sup>In 2003, the RIG issued supplementary guidance to its contract auditors addressing antiterrorism provisions and also specified requirements in its contract auditor’s statements of work from 2003 through 2005.

report the audit results. Of the 62 reports, 14 reports (23 percent) did not state which mission requirements for vetting, certification, and clauses were applicable, if any, or whether compliance with them was reviewed. An additional seven reports (11 percent) stated that compliance with the mission's antiterrorism provisions was reviewed but did not provide any statement of the results.

In commenting on a draft of this report, the mission stated that it used annual audits managed by the RIG to verify whether the prime awardees were in compliance with antiterrorism certification and clause requirements. It also stated that the audits served to strengthen and improve compliance with antiterrorism requirements. However, the Inspector General's Office stated in its response to a draft of this report that since the mission is responsible for ensuring compliance with antiterrorism provisions, the mission should develop a system other than relying solely on financial audits, which are conducted after awards are made to ensure that funds provided to awardees are being spent as intended.

#### Auditors' Guidance Did Not Always Reflect Mission Policy and Was Not Clear on Audit Methodology for Subawards

In some instances, the written guidance provided to the RIG's contract auditors did not reflect the mission's policies and procedures for vetting, certifications, and clauses.

- *Vetting.* Although the mission implemented its vetting policies and procedures in October 2002, the written guidance to auditors in September and October 2003 did not explicitly require that they confirm that vetting was done. However, the statements of work provided to auditors in 2004 and 2005 included specific language directing auditors to determine compliance with vetting procedures.
- *Certifications.* The October 2003 written guidance regarding antiterrorism certifications differed from the mission's policy at the time. The mission required signed certifications for all awards and subawards, but the RIG guidance did not direct the auditors to verify that certifications were signed for subgrants under grants.<sup>48</sup>
- *Clauses.* The RIG's written guidance directed the auditors to check for a less detailed version of the antiterrorism clause than mission guidance called for. The clause provided to the auditors, unlike the mission's version, did not state that (1) it was required in subawards, (2) awardees must promptly notify USAID of significant changes in key individuals, or (3) USAID reserves the right to approve or reject certain subawardees.

In addition, the RIG's October 2003 supplementary guidance to its auditors prohibited selecting a random sample of subawards to review for compliance with the antiterrorism

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<sup>48</sup>The October 2003 guidance to contract auditors stated that the certification requirement applies to the prime recipients of grants, as well as to the recipients of grants under contracts, but it does not apply to subgrantees under grantees.



certifications and clauses. However, the statements of work for fiscal years 2004 and 2005 did not specify whether auditors should select a sample of subawards or examine all subawards. Two contract audit firms were hired after the 2003 guidance was issued. We found that these firms had not received the guidance; consequently, unless the auditors were otherwise aware of the October 2003 guidance, some auditors may not have reviewed all subawards.

## **Conclusion**

The January 2006 election victory of Hamas in the Palestinian Legislative Council has led to increased concern that U.S. assistance to the West Bank and Gaza not support terrorists, as required by U.S. antiterrorism provisions. Although the USAID West Bank and Gaza mission developed policies and procedures for antiterrorism vetting, certifications, and clauses, its implementation of the provisions limited the mission's ability to ensure that U.S. assistance was not provided to terrorists or was used to support terrorism. Since our review, the mission has taken steps to correct many of these limitations, but others remain to be addressed.

- Although the mission has begun to collect more complete identifying information for vetting key individuals, its lack of a procedure to verify this information means that it cannot be certain that the information is accurate.
- Unresolved problems with the mission's vetting management database continue to affect its reliability, maintenance, and security, and the mission's recent elimination of a requirement that awardees be periodically revetted makes it less likely the mission will detect an awardees' terrorist associations that develop after initial vetting.
- Because the mission still does not require that prime awardees include the cash clause in all subawards, some subawardees may not be aware of their contractual responsibility not to support the Palestinian Authority.
- The mission's lack of formal policies and procedures for applying its antiterrorism provisions to financial agreements other than contracts, grants, and cooperative agreements may have resulted in some U.S. assistance going to the West Bank and Gaza without applying the antiterrorism provisions.

Despite the difficulty of the task, the mission should do more to ensure that U.S. assistance is not provided to terrorists or those who support terrorism.

To comply with the 2003 mandate to conduct financial audits of mission awardees, USAID's RIG contracted for audits and included the requirement to review compliance with antiterrorism provisions. However, financial audits are typically initiated after an award has been implemented or, in some cases, completed. As a result, the audits were of limited utility to the West Bank and Gaza mission for helping ensure compliance with the vetting, certification, and clause requirements, which, according to mission guidance, should be met before the award is made. In addition, the guidance for the RIG's contract

auditors did not always reflect the mission's policies and procedures for vetting, certifications, and clauses at the time of the award; and the RIG's October 2003 methodological guidance for examining subawards was not incorporated into its written guidance for 2004 and 2005. To enhance the mission's ability to promptly identify and address any lack of compliance with U.S. antiterrorism provisions, the mission needs to develop a system to review and report on compliance with its antiterrorism requirements before the awards are made and to ensure that the guidance provided for such reviews reflects the mission's policies and procedures at the time and adequately documents methodological approaches.

### **Recommendations for Executive Action**

To help ensure that U.S. assistance to West Bank and Gaza does not support terrorist activity, we recommend that the Director of U.S. Foreign Assistance and USAID Administrator direct the mission to take the following four actions:

- consider (1) verifying the identifying data it collects for vetting, such as date of birth, by requiring Israeli identification cards or some other form of identification and (2) rescinding its decision to eliminate periodic revetting of awardees;
- ensure that the mission's vetting management database promotes data reliability, satisfies technical documentation requirements, and meets all applicable security requirements;
- ensure that the cash clause is included in all subawards before they are initiated; and
- develop policies and procedures that address how each antiterrorism provision applies to consulting agreements, letters of understanding, memorandums of understanding, and purchase orders.

We also recommend that the Director of U.S. Foreign Assistance and USAID Administrator and the West Bank and Gaza mission, in cooperation with USAID's Office of the Regional Inspector General–Cairo, develop a review and reporting system other than USAID's financial audits to help ensure that the requirements for vetting, certifications, and clauses for each award and applicable subawards are met before the financial agreements are implemented. This system should also ensure that the reviews (1) reflect applicable West Bank and Gaza mission policies and procedures for vetting, certification, and clauses at the time of the awards; and (2) have a clear and consistent audit methodology for examining subawards.

### **Agency Comments and Our Evaluation**

USAID and USAID's Office of Inspector General provided written comments on a draft of this report. See enclosures II and III, respectively. State did not provide written comments. In addition, USAID, the USAID Regional Inspector General–Cairo, and State provided us with technical comments and updates, which we have incorporated

throughout this report, as appropriate. In its written comments, USAID also suggested several points of clarification, which we have also incorporated.

Overall, USAID noted that our fieldwork and draft report made a positive contribution to improving and strengthening the mission's antiterrorism procedures. As we note throughout the report, the mission acted on or began acting on many of our findings while the engagement was ongoing. USAID accepted our recommendations to modify its vetting procedures, improve its vetting management database, and ensure that the cash clause is included in all subawards. It noted the mission has begun or completed action to address these issues.

However, USAID disagreed with our recommendation that it should develop policies and procedures for applying antiterrorism provisions to other assistance agreements, such as memorandums of understanding and purchase orders. It noted that these "unusual instruments" either do not provide assistance or are already covered by the mission's current guidance. We note that since our review the mission has amended Mission Order 21 to apply antiterrorism provisions to in-kind assistance. We also note that, while the order is very specific regarding contracts, grants, and cooperative agreements (and now in-kind assistance), it does not specifically address other types of agreements. We believe the mission still needs to clarify how antiterrorism provisions apply to all types of agreements the mission uses.

Finally, the USAID Inspector General said his office would be pleased to cooperate with the mission to develop a system to help ensure that the antiterrorism provisions are met before financial agreements are implemented. The Inspector General did not specifically address our recommendation that it ensure that its audit guidance reflects applicable mission policies and that its methodology for examining subawards is clear and consistent. USAID agreed about the necessity of an improved system for ensuring compliance with antiterrorist provisions before prime awards and subawards are implemented. However, it noted that this responsibility rests with the mission and the prime awardees, and should not be the subject of "preaward audits." USAID also noted that its contractors and grantees are long-standing implementing partners who are cognizant of their obligations to adhere to federal and USAID policies and guidance. Moreover, as of March 2006, the mission began systematically verifying that subawardees signed the required certifications and that subawards had the mandatory clauses. We purposely did not specify how the mission should ensure that its antiterrorism provisions are in place before awards are implemented. We recommended that USAID and the West Bank and Gaza mission cooperate with the USAID Regional Inspector General–Cairo to develop such a system because the mission had relied on its audits in the past.

- - - - -

Copies of this report are being sent to the Secretary of State, the Director of Foreign Assistance and USAID Administrator, the USAID Inspector General, relevant congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, the report will be made available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (202) 512-3149 or at [GootnickD@gao.gov](mailto:GootnickD@gao.gov). Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report. Major contributors to this report are listed in enclosure IV.

A handwritten signature in black ink that reads "David Gootnick". The signature is written in a cursive style with a large initial "D" and "G".

David Gootnick, Director  
International Affairs and Trade

Enclosures

## Enclosure I

### Scope and Methodology

To determine the extent to which the United States Agency for International Development's (USAID) West Bank and Gaza mission (the mission) complied with Executive Order 13224 and the various antiterrorist restrictions in the Consolidated Appropriations Acts of 2003, 2004, and 2005, we examined the mission's implementation of several USAID Acquisition and Assistance Policy Directives issued since 2002. Because we were mandated to examine USAID's use of fiscal year 2005 funding for the West Bank and Gaza, we focused our review on the mission's contracts, grants, and cooperative agreements (and related subawards) that were active during fiscal year 2005 and had received fiscal year 2005 funds through March 2006. In February 2006, we traveled to Tel Aviv, Israel, and discussed the mission's implementation of the antiterrorism requirements with the USAID Mission Director, his senior staff, project officers, contract technical officers, and other USAID mission officials responsible for managing assistance projects and overseeing contracts, grants, and cooperative agreements. We reviewed the mission's antiterrorism guidance and examined in detail (1) the mission's vetting documentation and vetting management database to determine if the mission had documented that it had vetted awardees and subawardees, as required; and (2) the various financial agreements' records to determine if antiterrorism certifications had been signed and the required clauses were in the awards and subawards, as required.

- To understand the mission's vetting process, we discussed with various mission officials, including the Regional Legal Advisor, how the process worked. We examined the documentation provided to the mission in response to its vetting for organizations and individuals. To gain a better understanding of the vetting responses, we randomly selected a probability sample<sup>49</sup> of 520 vetting results memorandums accumulated by the mission beginning in 2002 through March 2006. We also discussed the operation of the mission's vetting management database with the foreign service national charged with maintaining it at the time of our review. He provided us access to the vetting database and its related documentation. In addition, during our review, we obtained related information from the Defense Intelligence Agency, the Central Intelligence Agency, and the Departments of State and Treasury.

---

<sup>49</sup>With a probability sample, each member of the study group (in this case, the mission's vetting results memorandums) has a known chance of being selected. Our sample was only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. For this estimate of 94 percent, the confidence interval extends from 88 to 98 percent. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn.

- To determine whether the mission’s prime awards contained the antiterrorism certification and clauses, as required, we reviewed the mission’s files for all 99 prime awards that were active during 2005. Of the 99 prime awards, 20 were cooperative agreements and 3 were grants. To determine whether the subawards contained the required antiterrorism certifications and clauses, we reviewed all 99 prime awards to determine which had subawards. We found 67 prime awards with a total of 931 subawards. We then examined the subawards as follows:
  - For antiterrorism certifications, the requirement applied to any subgrants issued under a contract, grant, or cooperative agreement after April 1, 2003. We found that 14 prime awards (6 contracts, 2 grants, and 6 cooperative agreements) had subgrants that required an antiterrorism certification. For 13 of these prime awards, we examined all the applicable subgrants, for a total of 104. However, 4 of these were not dated, and thus, could not be assessed. The remaining prime award had 190 applicable subgrants. We selected a random sample of 73 of these. Therefore, we examined a total of 177 (about 60 percent) out of 294 applicable subgrants under 14 prime awards.
  - For the antiterrorism clauses, the requirement applied to any subawards under prime awards that were issued on or after March 20, 2002. In some cases, prime awards entered into prior to March 20, 2002, were modified to include the clause, and those related subawards also required the clause as of the date of the modification. Of a total of 488 subawards that fit this category, 24 were missing documentation and therefore could not be analyzed. Seventy-one of these subawards were affiliated with UN agencies and therefore did not require the clause to be included in subawards. Therefore, we found that a total of 393 subawards were required to contain the clause and we examined all of them.

For our analysis of the mission’s financial agreements, we developed a data collection instrument to help ensure that our reviews of the mission’s files were consistent. To help us track and analyze the information collected, we developed a database to record the data for each award. For each prime award, we recorded information regarding vetting, certification, and clauses, as well as more than 30 other data elements, including the award number, project name, start and end dates, and objectives and goals. For each subaward, we recorded key information about the certifications and antiterrorism clause, as well as the subaward type, signature date, dollar value, subawardee name, U.S. or non-U.S. designation, and key individuals’ names. During our review of the mission’s financial agreement files, we discussed any conflicting data or, in some cases, missing data, with the cognizant project officer or contract technical officer. In this way, we resolved any apparent disparities and satisfied ourselves that the data we compiled were sufficiently reliable for the purposes of this report.

In reviewing the RIG’s financial audits that addressed, in part, the West Bank and Gaza mission’s compliance with its antiterrorism provisions, we examined 62 audit reports on assistance to the West Bank and Gaza issued in fiscal years 2004 through 2006. These reports covered awards active from 2002 through 2005. In addition, we traveled to Cairo, Egypt, and met with RIG officials to discuss its audit coverage of USAID West Bank and

Gaza awards. When we were not clear about the audit reports' scope and methodology, we followed up with the cognizant Regional Inspector General (RIG) official. In this way, we resolved any apparent disparities and satisfied ourselves that the data we compiled were sufficiently reliable for the purposes of this report.

## Enclosure II

### USAID Comments

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**USAID**  
FROM THE AMERICAN PEOPLE

September 22, 2006

Mr. David Gootnick  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Gootnick:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled: Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza (GAO-06-1062R). USAID thanks the GAO and its staff for their hard work and professionalism.

The GAO team's field work and draft report contributed positively to the continuous improvement and strengthening of our anti-terrorism vetting procedures. In fact, implementation of some GAO recommendations began while the audit was still on-going. We are particularly pleased to note that this comprehensive review identified no funding going to terrorist individuals or organizations, a clear indication that the systems the USAID Mission has in place are an effective bulwark ensuring that U.S. assistance does not support terrorism. We have enclosed background information highlighting points we feel warrant further clarification, and information on the recommendations GAO has made as a result of its audit.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

A handwritten signature in black ink that reads "Lisa D. Fiely". The signature is written in a cursive style.

Lisa D. Fiely  
Chief Financial Officer

Enclosure: a/s

U.S. Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
www.usaid.gov



Response to GAO Report 06-1062R  
FOREIGN ASSISTANCE: Recent Improvements Made, but USAID Should  
Do More to Help Ensure Aid Is Not Provided for terrorist Activities in  
West Bank and Gaza (August 2006)

Background:

We believe two important points do not get adequate attention in the draft report:

1. USAID West Bank and Gaza was at the vanguard of U.S. Government agencies establishing anti-terrorism vetting procedures for assistance. Current procedures are the culmination of a long evolutionary process beginning in July 2001 that included broad consultations with Congress and other Executive Branch agencies, within USAID, and now with the GAO. A diagram of the Mission's vetting process has been provided to the GAO.
2. It is important to view the anti-terrorism procedures in light of the overall program and its strategic importance to the success of the USG policy in support of a two state solution to the Israeli/Palestinian issue. While those procedures have importance in and of themselves, they must be developed, implemented, and assessed not only in terms of applicable regulations and laws, but also in terms of how they relate to the achievement of foreign policy objectives.

Recommendations for Executive Action:

The first four recommendations are directed specifically to the West Bank and Gaza Mission. The fifth recommendation includes the cooperation of the Regional Inspector General (RIG)/Cairo.

The report's first recommendation is to consider (1) verifying the identifying data collected for vetting; and (2) reinstating periodic revetting of awardees. USAID accepts this recommendation and plans to require implementing partners to provide an affirmative certification as to the accuracy of the information, as they are best situated to be able to verify the information.

See  
comment 1.

See  
comment 2.

The second recommendation is to ensure the vetting management database meets data reliability, technical documentation and security requirements. USAID accepts the recommendation. The Agency has devoted considerable resources toward developing a more sophisticated database that will be hosted in USAID/Washington and will be fully compliant.

The third recommendation is to ensure that the cash clause is included in all subawards. USAID accepts the recommendation and since March 2006 has required prime awardees to provide a copy of the cash clause that appears in each sub-award. We have requested that the relevant report language be changed to reflect this.

The fourth recommendation is to develop policies and procedures on how anti-terrorism provisions apply to unusual instruments, such as memoranda of understanding, project agreements, and purchase orders. We disagree with the premise of the recommendation, as the instruments referred to are either instruments which do not provide assistance or forms of contracts which are already covered by the Mission's current procedures.

The fifth recommendation is to work with USAID's Inspector General in Cairo (RIG) to institute "pre-award audits" to ensure that all applicable clauses are included in all awards and subawards. While USAID agrees with the GAO that there needs to be an improved system for ensuring compliance with pre-award anti-terrorism requirements (vetting, certification, and contract/grant clauses), USAID also agrees with the RIG that this responsibility rests with the USAID mission and the prime awardees, and should not be the subject of "pre-award audits." This view conforms to standard federal government regulations that put responsibility on prime awardees for ensuring that all subawards are in compliance with federal government requirements. Further, the vast majority of the Mission's contractors and grantees are long-standing USAID partners who are cognizant of their obligation to adhere to federal and USAID policies and guidance, are aware of their and their sub-awardees' legal responsibilities not to provide assistance and support to entities affiliated with terrorism; and have thorough, long established internal procedures to ensure compliance. Moreover, following the issuance of Mission order No. 21 in March 2006, the Mission began systematically verifying that recipients of sub-awardees signed the required certifications and that subawards contained the mandatory clauses, thus meeting the intent of the GAO recommendation.

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See  
comment 3.

See  
comment 4.

Statements Requiring Clarification:

The draft report includes several statements that warrant clarification, including the following:

See  
comment 5.

1. "Although the mission has begun to collect more complete identifying information for vetting key individuals, its lack of a procedure to verify this information means that it cannot be certain that the information is accurate." This statement implies that the information the Mission collects may be inaccurate. There is no indication or evidence to suggest that information provided is inaccurate, only that further steps could be taken to provide additional comfort as to its accuracy. This is an important clarification given that the draft report and past reviews have established no indication of false or inaccurate data or that the Mission's implementing partners have not verified information collected.

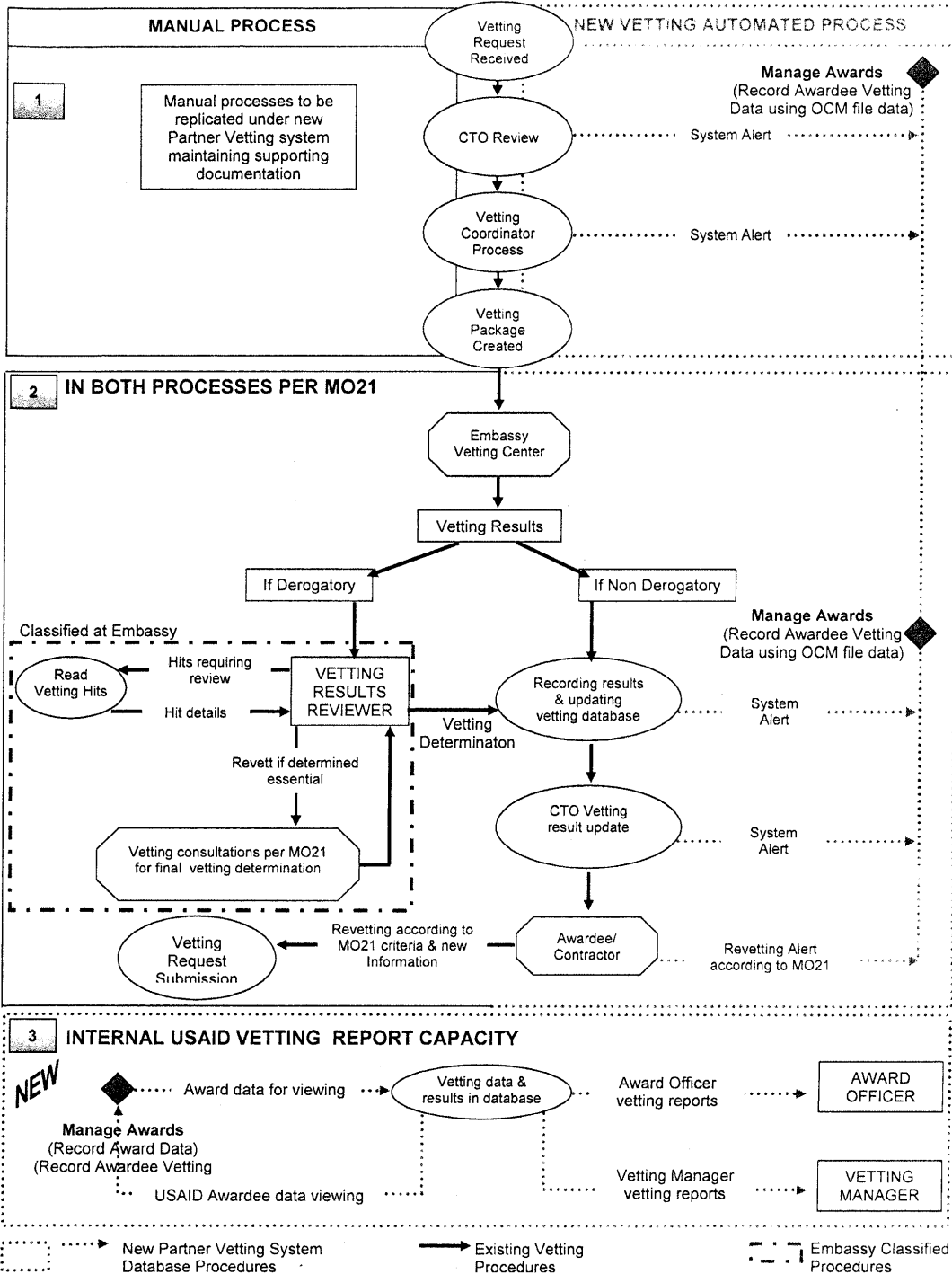
See  
comment 6.

2. "Unresolved problems with the mission's vetting management database continue to affect its reliability, maintenance, and security, and the mission's recent elimination of a requirement that awardees be periodically revetted makes it less likely the mission will detect an awardees' terrorist associations that develop after initial vetting." As the draft report mentions, the Mission is replacing its database as a way to strengthen its anti-terrorism procedures. The new database, expected to be operational in November 2006, will address all findings and recommendations from the RIG's review of the current database and will implement relevant application and security controls such as those in Automated Directives System 545, Information Systems Security.

See  
comment 7.

As for the periodic revetting, the Mission believes that the additional revetting "triggers" outlined in Mission Order #21 (which added more stringent rules) better anticipate the possibility that terrorist associations may develop over time than periodic revetting. A description of this process in the draft report would provide the reader with some context for the Mission's decision.

USAID once again thanks the GAO for its diligence and rigor in preparation of the draft report and for the opportunity to comment.



The following are GAO's comments on USAID's letter dated September 22, 2006.

1. The diagram provided by USAID has been included with the agency's comments.
2. Information pertaining to the overall purpose of USAID's assistance is included in the background section of the report.
3. USAID disagrees with our recommendation that it should develop antiterrorism policies and procedures for "unusual" instruments such as memorandums of understanding and purchase orders. USAID stated that it believes that its current policies and procedures are broad enough to cover all types of assistance agreements. We believe that clarifying the definitions of awards and subawards contained in mission order 21 and how antiterrorism provisions apply to other types of awards could help ensure that antiterrorism policies are correctly and consistently applied. We added additional evidence and information to the report to further demonstrate the need to clarify the policies and procedures.
4. We agree that the responsibility for ensuring that the antiterrorism policies and procedures are correctly and consistently applied rests with the mission and prime awardees. We purposely did not specify how the mission should ensure that its antiterrorism provisions are in place before awards are implemented. We recommended that USAID and the West Bank and Gaza mission cooperate with the USAID Regional Inspector General–Cairo to develop such a system because the mission had relied on its audits in the past. We also noted in the report that USAID now requires that awardees provide copies of required certification and award sections containing the antiterrorism-related clauses prior to award approval.
5. In technical comments USAID provided on a draft of this report, USAID stated that it is planning to obtain an additional certification from awardees as to the accuracy of key individuals' names and other data provided. We added information to the report to reflect this new procedure.
6. We describe the corrective actions that USAID is taking to improve its vetting management database where applicable in the report.
7. Additional information has been added to the report that describes the additional conditions that would require that revetting occur. USAID also stated in its technical comments that it plans on reinstating a periodic revetting requirement. This change in policy has been added to the report.

## USAID Inspector General Comments



*Office of Inspector General*

September 5, 2006

David Gootnick  
Director, International Affairs and Trade  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. Gootnick:

Thank you for the opportunity to comment on the draft report titled *Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza* (GAO-06-1062R).

Our Regional Office of Inspector General in Cairo will continue to work closely with the USAID Mission in providing assistance and to ensure that non-Federal auditors perform their work in accordance with Government Auditing Standards in addressing the audit needs of USAID/West Bank and Gaza. We would be pleased to cooperate with USAID/West Bank and Gaza as it implements GAO's recommendation on page 30 of the draft report to "develop a review and reporting system other than USAID's financial audits to help ensure that the requirements for vetting, certifications, and clauses for each award and applicable subawards are met before financial agreements are implemented."

Since the Mission is responsible for ensuring that these requirements are met, we agree that it should develop a system other than relying solely on financial audits—which by their nature are conducted after awards are made so as to ensure that funds provided to awardees are being spent as intended. These audits will also continue to include steps to review whether the Mission carried out required antiterrorism provisions.

Therefore, we believe the captions stating that these audits were of "Limited Utility to the Mission" should be revised since the audits are doing precisely what they were designed to do. We suggest that the captions on pages 25 and 26 be revised as follows. The caption on page 25 should read "USAID Complied with the Mandate to Audit Awardees, but Other Procedures Are Necessary to Ensure Compliance with Antiterrorism Provisions." The caption on page 26 should read: "The Antiterrorism Compliance Review Needs to Be Accomplished Before Financial Audits Are Performed." Accordingly, the text following these captions should be revised to remove statements that these audits were not useful and to clearly state that systems and procedures, other than financial audits, need to be put in place before awards are made.

U.S. Agency for International Development  
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**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

Our Regional Office of Inspector General in Cairo will cooperate and consult with USAID/West Bank and Gaza as they implement these systems and procedures. In doing so, our office needs to ensure that we will not be involved with clearing or approving such systems in order to maintain our independence as USAID's Office of Inspector General.

Sincerely,

*Joseph Farinella*  
Joseph Farinella  
Assistant Inspector General for Audit

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## **Enclosure IV**

### **GAO Contact and Staff Acknowledgments**

#### **GAO Contact**

David Gootnick (202) 512-3149

#### **Staff Acknowledgments**

Albert H. Huntington, III; David M. Bruno; Jeffrey L. Hartnett; Arthur James; and Robert E. Lee made key contributions to this report. In addition, Claude T. Adrien, Martin de Alteriis, Etana Finkler, Reid L. Lowe, Grace P. Lui, and Jose M. Pena provided technical assistance.

## Enclosure V

### Glossary

USAID has used the following types of financial agreements to transfer assistance in the West Bank and Gaza.<sup>50</sup>

**Consulting agreements** are used to retain, in an advisory role, an individual considered an expert in his or her field. The contractual form may be an employment agreement or subcontract, depending on the organization's practices.

**Contracts** are principally used to acquire property or services for the use of the federal government.

**Cooperative agreements** are used to transfer money, property, or services to provide federally authorized support or stimulation in which USAID is expected to be substantially involved.

**Grants** are principally used to transfer money, property, or services to provide federally authorized support or stimulation in which USAID is not expected to be substantially involved.

**Letters of agreement** are used to record a common understanding where USAID's standard provisions would not otherwise be required to be incorporated to apply specific conditions on the interaction.

**Memorandums of understanding (MOUs)** set forth an agreement between parties. An MOU may be used to cover a range of topics, including results to be achieved, activities to be implemented, and the respective roles and responsibilities of each party. An MOU is not used for obligating funds. However, an MOU may be used to confirm an agreement with a host government on a program that USAID will fund directly through an obligating agreement signed with other parties.

**Purchase orders** set forth USAID's contractual agreement for small purchases of goods and services.

(320379)

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<sup>50</sup>These definitions are from the USAID Automated Directives System Glossary and West Bank and Gaza mission staff.

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