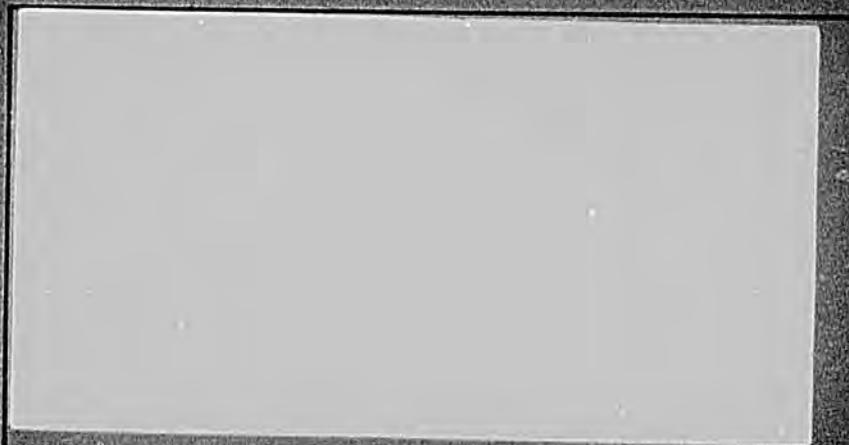


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
TEGUCIGALPA

Page 77

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY ASSOCIATED
WITH USAID/EL SALVADOR PROGRAMS**

**Audit Report No. 1-519-90-03
October 31, 1989**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
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October 31, 1989

MEMORANDUM

TO: USAID/El Salvador Director, Henry H. Bassford
FROM: RIG/A/T, *Louise N. Gothard*
Coinage N. Gothard, Jr.
SUBJECT: Audit of Verification of Accountability for Dollars
and Local Currency Associated with USAID/El Salvador
Programs

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of verification of accountability for dollars and local currency associated with USAID/El Salvador programs. Five copies of the final audit report are attached for your action. We appreciate the cooperation and assistance provided the auditors on this assignment.

Recommendations 1.a and 1.b are closed upon issuance of this report. Recommendation 1.d is resolved and may be closed when the mission order on closeout procedures and final audits is issued. Recommendation 1.c is unresolved.

Please notify this office within 30 days of the status of actions taken to implement recommendation 1.d and any additional information you may wish us to consider concerning recommendation 1.c.

EXECUTIVE SUMMARY

Officials who manage A.I.D. dollars or local currency associated with A.I.D. programs must fully account for their activities to the public. Independent audit is an important internal control technique which serves to verify that funds are properly accounted for and used for authorized purposes. Audits of A.I.D.-managed resources may be performed by Federal auditors, by non-Federal auditors supervised by the Office of Inspector General, or by non-Federal auditors contracted by organizations receiving assistance. The fundamental requirements for audit of appropriated dollars and local currency associated with A.I.D. programs are presented in appendix 2.

As of October 31, 1988, USAID/El Salvador was managing 45 active project agreements with obligations of \$591.3 million. The Mission had disbursed \$244.2 million and advanced \$21.8 million under these agreements. The Mission was also monitoring uses of local currency deposited under the 1987 and 1988 Public Law 480, Section 416, and Economic Support Fund programs. Local currency equivalent to \$182.5 million had been programmed for projects and the equivalent of \$102.1 million disbursed to the implementing agencies.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a performance audit of USAID/El Salvador's verification of accountability for dollars and local currency. The audit objectives were to evaluate (1) compliance with laws, regulations, and Agency guidance dealing with audit requirements and (2) USAID/El Salvador's system for ensuring that audit requirements were met.

USAID/El Salvador was complying with A.I.D. guidance on audit of local currency projects. However, the Mission had not fully complied with audit requirements applicable to appropriated dollar projects. The audit disclosed instances of noncompliance with the Inspector General Act of 1978, Office of Management and Budget circulars, and A.I.D. guidance. The audit also showed that the Mission needed to strengthen its systems for ensuring that audit requirements were met.

USAID/El Salvador has placed a great deal of emphasis on ensuring adequate audit coverage of its programs, and, according to our analysis, its programs have received more comprehensive coverage than those of any other Mission in the Latin America and Caribbean Bureau. One of the most important actions the Mission had taken was to assign an audit liaison officer, whose responsibilities included ensuring that audits

were performed when required and that Office of Inspector General audit recommendations were implemented.

The report finding, summarized below, discusses instances of noncompliance with audit requirements for dollar projects.

Audit is a mandatory internal control technique which provides independent verification that all other internal controls techniques, operating together, have produced the desired result: A.I.D. funds properly accounted for and used for authorized purposes. Requirements for audit of A.I.D. funds are established by law, Office of Management and Budget circulars, and internal Agency guidance. The current audit found cases where project papers did not evaluate audit needs and agreements did not budget funds for audit or did not include required standard provisions. One required audit was not performed and those audits that were performed did not meet established standards. Also, the Mission had not requested final audits of three completed contracts and agreements. According to Mission officials, these problems existed because of management oversights and because other work sometimes took precedence over enforcing audit requirements. Other internal control techniques can help compensate for inadequate audit coverage, but only to a limited extent. Therefore, since not all audit requirements were met, USAID/El Salvador did not have the required degree of assurance of accountability for A.I.D. funds. The report recommends that USAID/El Salvador amend four project agreements to incorporate the correct standard provisions, obtain an audit for another project agreement, and adopt formal procedures to ensure that audit reports meet established standards and that final audits are requested when appropriate. USAID/El Salvador generally agreed with the finding but did not agree that it should develop procedures to ensure that audit reports meet established standards. We continue to believe that all parts of the recommendation should be implemented.

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY ASSOCIATED
WITH USAID/EL SALVADOR PROGRAMS**

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**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY ASSOCIATED
WITH USAID/EL SALVADOR PROGRAMS**

PART I - INTRODUCTION

A. Background

Officials who manage A.I.D. dollars or local currency associated with A.I.D. programs must fully account for their activities to the public. Independent audit is an important internal control technique which serves to verify that funds are properly accounted for and used for authorized purposes. Audits of A.I.D. managed resources may be performed by Federal auditors, by non-Federal auditors supervised by the Office of Inspector General, or by non-Federal auditors contracted by organizations receiving assistance. The fundamental requirements for audit of appropriated dollars and local currency associated with A.I.D. programs are presented in appendix 2.

As of October 31, 1988, USAID/El Salvador was managing 45 active project agreements with obligations of \$591.3 million. The Mission had disbursed \$244.2 million and advanced \$21.8 million under these agreements. The Mission was also monitoring uses of local currency deposited under the 1987 and 1988 Public Law 480, Section 416, and Economic Support Fund programs. Local currency equivalent to \$182.5 million had been programmed for projects and the equivalent of \$102.1 million disbursed to the implementing agencies.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a performance audit of USAID/El Salvador's verification of accountability for dollars and local currency. The audit objectives were to evaluate (1) compliance with laws, regulations, and Agency guidance dealing with audit requirements and (2) USAID/El Salvador's system for ensuring that audit requirements were met.

The audit covered all appropriated dollar agreements active

¹ Exchange rate used is 5 Salvadoran colones to 1 U.S. dollar. The figures cited above do not include budget support, trust funds, or other amounts not programmed for projects.

as of October 31, 1988. These agreements had disbursements of \$244.2 million and advances of \$21.8 million as of October 31, 1988. The audit also covered all 1987 and 1988 local currency projects, which had the equivalent of \$102.1 million in disbursements. However, examinations of these disbursements and advances were limited to those required to accomplish the audit objectives.

The review of internal controls and the compliance tests performed to accomplish the audit objectives are discussed in detail in the compliance and internal control section beginning on page 10 of this report. The review of internal controls was limited to those controls which ensure that audit requirements are met.

The audit was conducted from July 5, 1989 through July 28, 1989 in San Salvador, El Salvador. The audit was made in accordance with generally accepted government auditing standards.

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY ASSOCIATED
WITH USAID/EL SALVADOR PROGRAMS**

PART II - RESULTS OF AUDIT

USAID/El Salvador was complying with A.I.D. guidance on audit of local currency projects. However, the Mission had not fully complied with audit requirements applicable to appropriated dollar projects. The audit disclosed instances of noncompliance with the Inspector General Act of 1978, Office of Management and Budget circulars, and A.I.D. guidance. The audit also showed that the Mission needed to strengthen its systems for ensuring that audit requirements were met.

USAID/El Salvador has placed a great deal of emphasis on ensuring adequate audit coverage of its programs, and, according to our analysis, its programs have received more comprehensive coverage than those of any other Mission in the Latin America and Caribbean Bureau. One of the most important actions the Mission had taken was to assign an audit liaison officer, whose responsibilities included ensuring that audits were performed when required and that Office of Inspector General audit recommendations were implemented.

The report finding discusses instances of noncompliance with audit requirements for dollar projects. The report recommends that USAID/El Salvador amend four project agreements to incorporate the correct standard provisions, obtain an audit for another project agreement, and adopt formal procedures to ensure that audit reports meet established standards and that final audits are requested when appropriate.

A. Finding and Recommendation

1. Verification of Accountability for A.I.D. Funds Needed Improvement

Audit is a mandatory internal control technique which provides independent verification that all other internal control techniques, operating together, have produced the desired result: A.I.D. funds properly accounted for and used for authorized purposes. Requirements for audit of A.I.D. funds are established by law, Office of Management and Budget circulars, and internal Agency guidance. The current audit found cases where project papers did not evaluate audit needs and agreements did not budget funds for audit or did not include required standard provisions. One required audit was not performed, and those audits that were performed did not meet established standards. Also, the Mission had not requested final audits of three completed contracts and agreements. According to Mission officials, these problems existed because of management oversights and because other work sometimes took precedence over enforcing audit requirements. Other internal control techniques can help compensate for inadequate audit coverage, but only to a limited extent. Therefore, since not all audit requirements were met, USAID/El Salvador did not have the required degree of assurance of accountability for A.I.D. funds.

Recommendation No. 1

We recommend that USAID/El Salvador:

- a. amend the agreements for the Rural Electrification Project (No. 519-0358-A-00-8499), Training for Productivity and Competitiveness Project (No. 519-0315-G-00-7565), Agribusiness Development Project (No. 519-0327-A-00-7575), and El Salvador Cooperative Production and Marketing Project (No. 519-0353-A-00-8455) to incorporate the correct standard provisions;
- b. obtain an audit of the Public Services Restoration Project (No. 519-0279);
- c. adopt formal procedures to ensure that recipient audit reports meet established standards; and
- d. adopt formal closeout procedures specifying when final audits should be requested.

Discussion

Audit is a primary internal control technique, mandated by law and regulation, which serves to verify that funds are properly

accounted for and used for authorized purposes. As discussed in the following sections, USAID/El Salvador had not fully complied with audit requirements for A.I.D. funds.

Project Papers Did Not Evaluate Audit Needs

A.I.D.'s Payment Verification Policy Statement Number 6, contained in a memorandum dated December 30, 1983, states that project papers "are to include an evaluation of the need for audit coverage in light of potential risks and are to describe planned contract and project audit coverage by the host government, A.I.D., and/or independent public accountants." USAID/El Salvador had approved 13 project papers and amendments since December 30, 1983. Of these, four did not include an evaluation of audit needs. Controller's Office officials attributed these omissions to management error. Evaluating audit needs during project design is an important means of ensuring that projects receive appropriate audit coverage.

We are not making a formal recommendation because A.I.D. project papers already undergo intensive reviews to ensure that they meet applicable requirements. Since the Controller's Office is already required to participate in these reviews we are unable to suggest improved procedures that would better ensure that all project papers evaluate audit needs. We do suggest, however, that the Mission exercise greater care during these reviews to ensure that project papers include an evaluation of audit needs.

Agreements Did Not Budget Funds for Audit

Payment Verification Policy Statement Number 6 further states that "Project funds should be budgeted for independent audits unless adequate audit coverage by the host country is reasonably assured or audits by third parties are not warranted as, for example, in the case of direct A.I.D. contracts or direct placement of participants by A.I.D." Since this guidance was issued, USAID/El Salvador had obligated funds under 14 agreements with the Government of El Salvador (excluding limited scope grant agreements). Six agreements did not budget funds for audit even though (1) audits were warranted and (2) adequate host country audit coverage was not reasonably assured. Mission officials stated that Mission policy was to budget funds for audit where appropriate and attributed these omissions to management error. Since the Mission had programmed program development and support funds for audits of these agreements we are not

making a formal recommendation. However, USAID/El Salvador should exercise more care to ensure that agreements budget audit funds where required.

Agreements Did Not Include Required Standard Provisions

A.I.D. Handbook 13 contains standard provisions dealing with audit and other matters which must be included in agreements with nongovernmental organizations. Of the 30 agreements with nongovernmental organizations we reviewed, eight agreements included incorrect standard provisions. Including incorrect standard provisions had little effect on audit requirements in seven of the eight cases either because the provisions had not changed substantively or because audits had been performed as would have been required by the correct provisions.

In the eighth case, the agreement for the Strengthening Rehabilitation Services Project included incorrect standard provisions which did not require audits to be performed and, as a result, none were performed. Had the correct provisions been attached, an independent audit of the project would have been required during the grantee's normal annual audit cycle.

As far as we could determine, incorrect standard provisions were attached to agreements because the Mission did not have the correct standard provisions in effect when the agreements were signed. Four of the agreements with incorrect standard provisions had ended or were nearing completion. However, USAID/El Salvador should amend the other agreements to incorporate the correct standard provisions.

Also, we could not determine whether the correct standard provisions were included in six agreements because the Mission did not have copies of the agreements with the standard provisions attached and the grant letters themselves did not specify which provisions were attached. While we are not making a formal recommendation, the Mission should ensure that it keeps at least one copy of each agreement with the standard provisions attached so that Mission staff can be certain which provisions apply to each agreement.

One Audit Was Not Performed When Required

Fourteen USAID/El Salvador agreements required audits to be performed prior to the time of our audit. These audits were performed for all but two agreements (which were for the same project). The grant and loan agreements for the Public Services Restoration Project required audits to be performed

"regularly", but no audits had been performed during the project's eight-year life. The Inspector General's Office performed a preaudit survey of this project in 1985, but this would not fulfill the requirement for regular audits. This agreement had not been given high priority for audit because the Mission (1) made all payments directly to commodity suppliers and (2) closely monitored the Government of El Salvador contracting procedures used to select suppliers. Mission officials agreed, however, that an audit of this project was warranted.

Because no audits of the project had been performed, USAID/El Salvador lacked adequate assurance of accountability for project funds. The Mission should obtain an audit of the Public Services Restoration Project.

Audit Reports Did Not Meet Established Standards

Office of Management and Budget Circular A-73 states that:

Primary responsibility for audits of federally assisted programs rests with recipient organizations * * *. Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies.

The Inspector General Act of 1978 makes Inspectors General responsible for providing policy direction for audits of their agencies. The A.I.D. Inspector General has delegated this responsibility for the Latin America and Caribbean Bureau to the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T). RIG/A/T's policy on recipient audits was communicated in Tegucigalpa 21183, dated December 23, 1987. The policy states, in part:

* * * [H]ost government audits or host government contracted audits that either (1) do not certify an accountability for A.I.D. funds or (2) do not meet the basic audit standards of the U.S. Comptroller General are inadequate for A.I.D. audit purposes and do not meet the requirements for audits in project agreements.

This policy is consistent with A.I.D. Payment Verification Policy Statement Number 6, which requires A.I.D. Missions to evaluate the adequacy of host government audit coverage.

Excluding those by the Inspector General's Office, 17 audit reports had been issued. None of the 17 reports met the standards described above. For example, 12 of the reports did not show how A.I.D. funds were used and 14 did not meet General Accounting Office reporting standards. That is, the reports either did not present the results of the auditors' internal control review, did not include positive assurance on compliance, or did not include negative assurance on compliance. (Positive assurance is a statement that, for the items tested by the auditors, the auditee either did or did not comply with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditors' attention that would indicate that untested items were not in compliance with applicable laws and regulations.)

According to the audit liaison officer, the Mission had concentrated its efforts on ensuring compliance with American Institute of Certified Public Accountants (AICPA) auditing standards. The Mission controller believed that achieving reasonable compliance with AICPA standards was a necessary first step toward achieving compliance with General Accounting Office Standards. When audit reports do not meet established standards, management does not have the required level of assurance that A.I.D. funds are properly accounted for and used for authorized purposes. USAID/El Salvador should develop procedures to ensure that recipient audit reports meet established standards. These procedures should include communicating auditing standards to recipients and reviewing audit scopes of work.

Final Audits Had Not Been Requested

A.I.D. Contract Information Bulletin 87-5, dated January 14, 1987, requires A.I.D. Missions to establish formal closeout procedures for contracts, grants and cooperative agreements. The sample procedures attached to Bulletin 87-5 require final audits of cost type contracts and assistance agreements with estimated costs in excess of \$500,000. Two USAID/El Salvador cost type contracts and one cooperative agreement over \$500,000 had ended since January 1987, but the Mission had not requested final audits. The contracting officer recognized the importance of final audits but stated that other matters were given higher priority. Also, no Mission procedures specified when final audits should be requested. Final audits are an important means of ensuring that A.I.D. pays only eligible costs. USAID/El Salvador should adopt formal closeout procedures specifying when final audits should be requested.

In conclusion, our audit found instances of noncompliance with audit requirements in the six areas discussed above. Other internal control techniques employed by the Mission (for example, project officer monitoring, voucher review procedures, evaluations, and financial reviews) can help compensate for noncompliance with audit requirements to a limited extent. However, only audit can provide management independent verification that all other internal controls, operating together, have produced the desired result: A.I.D. funds properly accounted for and used for authorized purposes. USAID/El Salvador needed to amend four project agreements to incorporate the correct standard provisions, obtain an audit for another project agreement, and strengthen its procedures for complying with audit guidance.

Management Comments

USAID/El Salvador had implemented recommendations 1.a and 1.b and was developing a mission order to implement recommendation 1.d. The Mission did not concur with recommendation 1.c.

Office of Inspector General Comments

Recommendations 1.a and 1.b are closed upon issuance of this report. Recommendation 1.d is resolved and may be closed when the mission order is issued. Recommendation 1.c is unresolved.

B. Compliance and Internal Control

1. Compliance

The compliance tests performed included reviews of applicable guidance, project agreements, correspondence, audit reports, and financial records, as well as interviews with USAID/El Salvador officials. The tests covered all active USAID/El Salvador agreements and local currency projects as of October 31, 1988 and all agreements and contracts over \$500,000 completed between January 14, 1987 and October 31, 1988. A list of agreements and contracts reviewed is presented in exhibit 1.

Tests were performed to determine whether:

- project papers evaluated the need for audit coverage of projects,
- project agreements budgeted funds for audit where appropriate and included required audit provisions,
- required audits were actually performed,
- audit reports met U.S. General Accounting Office auditing standards and included opinions on financial statements showing specifically how A.I.D. funds were used,
- USAID/El Salvador had copies of all audit reports and had ensured that significant recommendations were implemented, and
- USAID/El Salvador had reasonable assurance that 1987 and 1988 Public Law 480, and Section 416, and Economic Support Fund local currency projects would be audited.

The compliance tests disclosed several instances of noncompliance with audit requirements for appropriated dollars. First, USAID/El Salvador had not always ensured that project papers evaluated audit needs nor that agreements budgeted funds for audit as required by A.I.D.'s Payment Verification Policy Statement Number 6. Second, eight project agreements did not include audit provisions mandated by A.I.D. Handbook 13. Third, an audit of another project was not performed when required by the loan and grant agreements. Fourth, the audits that were performed or contracted by recipient organizations did not meet General Accounting Office auditing standards as required by the Inspector General Act of 1978, Office of Management and Budget Circular A-73, and Office of Inspector General policy. Finally, the Mission had

not established formal closeout procedures as required by A.I.D. Contract Information Bulletin 87-5. These instances of noncompliance are discussed in more detail in the report finding.

Other than the conditions cited, tested items were in compliance with applicable laws and regulations. Nothing came to our attention to indicate that untested items were not in compliance with applicable laws and regulations.

2. Internal Control

The review of internal controls covered the general and specific controls employed by USAID/El Salvador to ensure that audit requirements were met. The general controls consisted of (1) written procedures setting forth the Mission's responsibilities regarding activities of the Inspector General's Office and (2) assignment of an audit liaison officer. The specific controls consisted of (1) a listing showing the extent and type of audit coverage of Mission projects and (2) a system for following up on Inspector General's Office audit recommendations. To gain an understanding of the internal control system, USAID/El Salvador internal directives were reviewed and management officials were interviewed. To test the effectiveness of the control system, project documentation was reviewed and project officers were interviewed.

The major weaknesses disclosed by the internal control review were that the Mission did not systematically ensure that audit reports met established standards or that final audits of completed contracts and agreements were requested. These weaknesses are discussed in the report finding.

C. Other Pertinent Matters

The following sections discuss four other pertinent matters that came to our attention.

No Formal System for Tracking Recommendations in Recipient Audit Reports Existed

USAID/El Salvador had a formal system for monitoring recommendations issued by the Inspector General's Office which showed the status of open recommendations and the actions taken to implement them. However, no formal system existed for following up recommendations from audits performed or contracted by recipient organizations. Six recipient audit reports with significant recommendations were reviewed. The Mission had followed up on the recommendations in four of these reports, and it had only recently received the other two reports. In our judgment, however, the absence of a formal followup system created a significant risk that recommendations might not be implemented and that management would not be aware that they had not been implemented. The controller agreed that a formal followup system would be useful. However, the audit liaison officer pointed out that his office was monitoring the status of more than 100 recommendations made by the Inspector General's Office. The controller stated that, given this workload, the Mission would be unable to implement a recommendation that it track recommendations from recipient audit reports. We defer to his judgment on this matter but believe that when the Mission has cleared the backlog of open recommendations it should implement a formal system for monitoring the status of significant recommendations from recipient audit reports.

A.I.D. Agreements Do Not Require Compliance with U.S. General Accounting Office Auditing Standards

The standard provisions for A.I.D. assistance agreements help ensure that only responsible organizations receive A.I.D. support. They do not require, however, the use of General Accounting Office (GAO) auditing standards. The Inspector General Act of 1978, Office of Management and Budget Circular A-73, and policy issued by the Regional Inspector General for Audit/Tegucigalpa require that audits of federally-assisted programs be made in accordance with GAO standards.

We believe that compliance with GAO auditing standards is an achievable goal in El Salvador, since local auditors are familiar with the auditing standards issued by the American Institute of Certified Public Accountants (AICPA). GAO

standards incorporate AICPA standards and also contain requirements unique to audits of Federal programs. These additional requirements, while important, are no more difficult to meet than those imposed by AICPA standards.

We may recommend in a future audit report that A.I.D./Washington modify the standard provisions for A.I.D. agreements to require the use of GAO auditing standards.

Refund Provision for Agreements with Nongovernmental Organizations May Need Revision

Audits sometimes show that recipients are unable to account for A.I.D. funds or have otherwise misused them. Certainly, A.I.D. should obtain refunds in either case (that is, when recipients cannot demonstrate to A.I.D.'s satisfaction that funds are properly accounted for or that they were used for intended purposes). This right is protected by the standard refund provision for government-to-government agreements, which states that:

In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods and services not used in accordance with this Agreement, A.I.D. * * * may require the Cooperating Country to refund the amount of such disbursement in U.S. Dollars to A.I.D. * * *.

In contrast, however, the standard refund provision for both U.S. and non-U.S., nongovernmental grantees does not afford A.I.D. the same level of protection. It states that:

If, at any time during the life of the grant, or as a result of final audit, it is determined by A.I.D. that funds it provided under this grant have been expended for purposes not in accordance with the terms of this grant, the grantee shall refund such amount to A.I.D.

In order to obtain a refund from a nongovernmental organization, then, A.I.D. must be able to determine for what purposes its funds were used. This could be impossible when documentation is inadequate or nonexistent. We may recommend in a future audit report that A.I.D./Washington modify this standard provision to enable A.I.D. to recover undocumented expenditures of its funds.

Government Audit Provision Does Not Specify Frequency of Audits

The standard audit provision for agreements with foreign governments requires the host government to maintain accounting books and records and provides that "* * * such books and records will be audited regularly * * *." This wording is imprecise because it does not specify the interval at which audits should be performed. This is surprising since the standard provisions for U.S. nongovernmental grantees require audits at least every two years and the standard provisions for non-U.S., nongovernmental grantees require annual audits. Also, audits of state and local governments in the United States (in some ways analagous to audits of foreign governments) are required to be made annually by the Single Audit Act of 1984 (Public Law 98-502). We may recommend in a future audit report that A.I.D./Washington modify the standard audit provision for government-to-government agreements to specify how frequently audits must be performed.

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY ASSOCIATED
WITH USAID/EL SALVADOR PROGRAMS**

PART III - EXHIBIT AND APPENDICES

Summary of Compliance Exceptions
For Agreements and Contracts Reviewed
(Information as of 10/31/88)

<u>Agreement Number</u>	<u>Project Paper after 1/84 Did Not Evaluate Audit Needs</u>	<u>Agreement with Obligations after 1/84 Did Not Budget Funds for Audit</u>	<u>Incorrect Audit Provisions Included</u>	<u>Audit Not Performed When Required</u>
<u>Active Government-to-Government Agreements</u>				
1. 519-0279 (grant)		x		x
2. 519-0279 (loan)				x
3. 519-0281		x		
4. 519-0333				
5. 519-0260				
6. 519-0349				
7. 519-0287				
8. 519-0323				
9. 519-0295				
10. 519-0296				
11. 519-0265	x	x		
12. 519-0210	x	x		
13. 519-0308		x		
14. 519-0303	x	x		
15. 519-0307				
<u>Active Agreements with Non-Governmental Organizations</u>				
16. 519-0300-G-00-5190				
17. 519-0281-G-00-8309				
18. 519-0281-A-00-4280				
19. 519-0281-A-00-5388				
20. 519-0333-G-00-8454				
21. 519-0333-G-00-8306			x	
22. 519-0358-A-00-8499			x	

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Summary of Compliance Exceptions
For Agreements and Contracts Reviewed
(Information as of 10/31/88)

<u>Agreement Number</u>	<u>Project Paper after 1/84 Did Not Evaluate Audit Needs</u>	<u>Agreement with Obligations after 1/84 Did Not Budget Funds for Audit</u>	<u>Incorrect Audit Provisions Included</u>	<u>Audit Not Performed When Required</u>
23. 519-0315-G-00-7565				
24. 519-0344-G-00-7673			x	
25. 597-0001-A-00-6420				
26. 519-0321-A-00-6219				
27. 519-0334-A-00-7253				
28. 519-0287-G-00-4387			x	
29. 519-0302-A-00-5205				
30. 519-0304-A-00-5506				
31. 519-0311-G-00-5513				
32. 519-0316				
33. 519-0323-A-00-8872				
34. 519-0352-A-00-8239				
35. 519-0336-A-00-7598			x	
36. 519-0210-G-00-5496				
37. 519-0275				
38. 519-0329-G-00-6446				
39. 519-0346-A-00-7599				
40. 519-0303-G-00-5510				
41. 519-0312-A-00-6376				
42. 519-0327-A-00-7575	x		x	
43. 519-0353-A-00-8455			x	
44. 519-0342-G-00-7379			x	
45. 519-0343-G-00-7552				

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Summary of Compliance Exceptions
For Agreements and Contracts Reviewed
(Information as of 10/31/88)

Completed Agreements
and Contracts

Final Audit
Not Requested

1. 519-0322-A-00-6312
2. 519-0000-C-00-8360
3. 519-0000-C-00-8199

X
X
X

memorandum

APPENDIX 1
Page 1 of 4

DATE: October 2, 1989

REPLY TO
ATTN OF: Richard Archi, Deputy Director
USAID/El Salvador

Archi

SUBJECT: Mission Response to Draft Audit Report of Verification of Accountability
for Dollars and Local Currency Associated with USAID/El Salvador Programs

TO: Coinage Gothard, Jr., RIG/A/T

- Ref. (A) Memo to C. Gothard, RIG/A/T from R. Archi, DDIR Dated 10/02/89
Requesting Closure of Rec. 1(a)
- (B) Memo to C. Gothard, RIG/A/T from R. Archi, DDIR Dated 09/25/89
Requesting Audit of Project No. 0279
- (C) Memo to C. Gothard, RIG/A/T from R. Archi, DDIR Dated 09/27/89
Concerning Audit Request of Grant Agreement No. 0342
- (D) Memo to C. Gothard, RIG/A/T from R. Archi, DDIR Dated 10/02/89
Requesting Closure of Rec. 1(d)

RECOMMENDATION NO. 1(A)

"We recommend that USAID/El Salvador:

- a. amend agreement numbers 519-0358-A-00-8499, 519-0315-G-00-7565,
519-0327-A-00-7575, and 519-0353-A-00-8455 to incorporate the correct
standard provisions;"

MISSION COMMENTS AND ACTIONS TAKEN

The Mission concurs with this draft recommendation.

The Mission has amended all four project agreements to incorporate the correct (and most current) standard provisions as evidenced by the attached letters to the four grantees and the accompanying Agreement Amendments incorporating the correct standard provisions (see Ref. A).

RIG ACTION REQUESTED

In Ref. (A), the Mission requested that the RIG close Rec. No. 1(a) upon issuance of the final audit report.

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RECOMMENDATION 1(3)

"We recommend that USAID/El Salvador:

- b. obtain audits of the Public Services Restoration Project (No. 519-0279) and the Strengthening Rehabilitation Services Project (No. 519-0342-G-00-7379);"

MISSION COMMENTS AND ACTIONS TAKEN

The Mission generally concurs with Rec. 1(b).

To comply, the Mission requested a federal RIG audit of the Public Services Restoration Project. The Mission suggested that the audit cover the post-earthquake period from January 1, 1987 to present (see Ref. B).

An audit survey of the Public Services Restoration Program was performed as of April 30, 1985 which advised the Mission to discontinue the audit engagement for the reasons stated in an attachment to Ref. (B). The Mission believes that a federal RIG audit with CPA assistance would be preferable to a RIG non-federal audit, especially if the RIG chooses to audit the pre-earthquake period, because the CPAs will need more direct guidance from the RIG in evaluating a program where physical damage may be difficult to observe and documentation from the pre-earthquake period of almost eight years ago may be incomplete.

Also to comply with Rec. 1(b), the Mission suggested that an audit of the Strengthening Rehabilitation Services Project at this time would not be a cost effective use of our resources for the following reasons:

1. The Project ended on 12/31/88 and no followup project is contemplated with the Grantee.
2. The total budget was a relatively small \$720,000, of which \$162,800 was paid by USAID/ES directly to a US corporation (Orthomedics) under a fixed fee contract for prosthetics, and \$350,000 was subgranted to Telethon Foundation (a local PVO) for carrying out operational support of three rehabilitation centers.
3. An evaluation of the Project was conducted which was generally favorable, finding no technical or administrative anomalies. The evaluation noted that the Grantee did successfully carry out the terms of the Grant Agreement.
4. The Grantee currently has only a small local office funded month-to-month outside of AID with a very limited staff. The Project Manager, who had financial oversight of the Project, has now resigned and moved to Australia. The rest of the Grantee's staff were non-paid volunteers, who are no longer involved.

5. Mission's Project Manager and Controller Office reviewed all voucher documentation submitted by the Grantee.

6. There are no Project funds available to fund the audit and the PACD has expired.

For these reasons, the Mission does not believe that an audit at this time would be a cost effective use of our resources. If the RIG does not concur, then the Mission, to comply with this draft recommendation, requests a Federal audit of this project.

RIG ACTION REQUESTED

Having complied with Rec. No. 1(b), the Mission requested that the RIG close this recommendation upon issuance of the final audit report (see Ref. (C).

RECOMMENDATION NO. 1(C)

"We recommend that USAID/El Salvador:

c. adopt formal procedures to ensure that recipient audit reports meet established standards; and"

MISSION COMMENTS AND ACTION TAKEN

The draft audit report states that the RIG noted 17 audit reports on grant recipients which were performed under AICPA standards rather than GAO standards as required by OMB Circular No. A-73. The Mission had previously noted to the RIG that Handbook 13 did not seem to require GAO standards for audits of PVOs. In addition, the Mission noted that using AICPA standards would be preferable for the long-term development of these PVOs because they are more useful to international and other non-USG donors.

The Mission also pointed out to the Auditors in a previous meeting that this exact question arose in RAF 5(b) of Audit Report No. 1-519-88-11 (FUSADES). This RAF stated that FUSADES had to be audited under GAO standards. The Mission responded that "these standards do not apply to the private entity's external auditors". The RIG subsequently dropped the RAF.

In the Exit Conference the RIG agreed not to include US PVOs in the RAF as determining their audit standards is considered to be beyond the direct influence of the Mission. Further agreement was not reached on this RAF.

RECOMMENDATION NO. 1(D)

"We recommend that USAID/El Salvador:

d. adopt formal closeout procedures specifying when final audits should be requested."

MISSION COMMENTS AND ACTION TAKEN

The Mission concurs with this draft recommendation.

To comply, the Mission is developing a MOM for formal closeout procedures specifying when final audits should be requested. The draft MOM is currently being cleared in-house (see Ref. D).

RIG ACTION REQUESTED

The Mission requested that the RIG classify Rec. No. 1(d) as resolved upon issuance of the final audit report (see Ref. D).

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Excerpts from Audit Guidance

Excerpts from the Inspector General Act of 1978, as amended on December 29, 1981

Sec. 4.(a) It shall be the duty and responsibility of each Inspector General, with respect to the establishment within which his Office is established -

(1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishment * * *

(b) In carrying out the responsibilities specified in subsection (a) (1), each Inspector General shall -

(1) comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions;

(2) establish guidelines for determining when it shall be appropriate to use non-Federal auditors; and

(3) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General as described in paragraph (1).

Excerpts from Office of Management and Budget Circular A-73, revised June 20, 1983

Agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether information is reliable; resources have been safeguarded; funds have been expended in a manner consistent with related laws, regulations, and policies; resources have been managed economically and efficiently; and desired program results have been achieved. Audits of Federal organizations, programs, activities and functions, State and local governments (as required by Circular A-102, "Uniform requirements for grants to State and local governments"), and others (as required by Circular A-110, "Uniform requirements for grants to universities, hospitals, and other non-profit organizations") will be made in accordance with the standards issued by the Comptroller General * * *.

Primary responsibility for audits of federally assisted programs rests with recipient organizations * * *. Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the

Comptroller General and otherwise meet the requirements of the Federal agencies. Federal agencies may perform additional audit work building on audit work already performed.

Excerpt from A.I.D.'s Supplemental Guidance on Programming Local Currency, dated October 21, 1987

If A.I.D. should choose to directly associate jointly programmed local currency with host government projects or private sector activities, the Mission should have reasonable assurance that * * * periodic audits of relevant activities will be undertaken.

APPENDIX 3

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