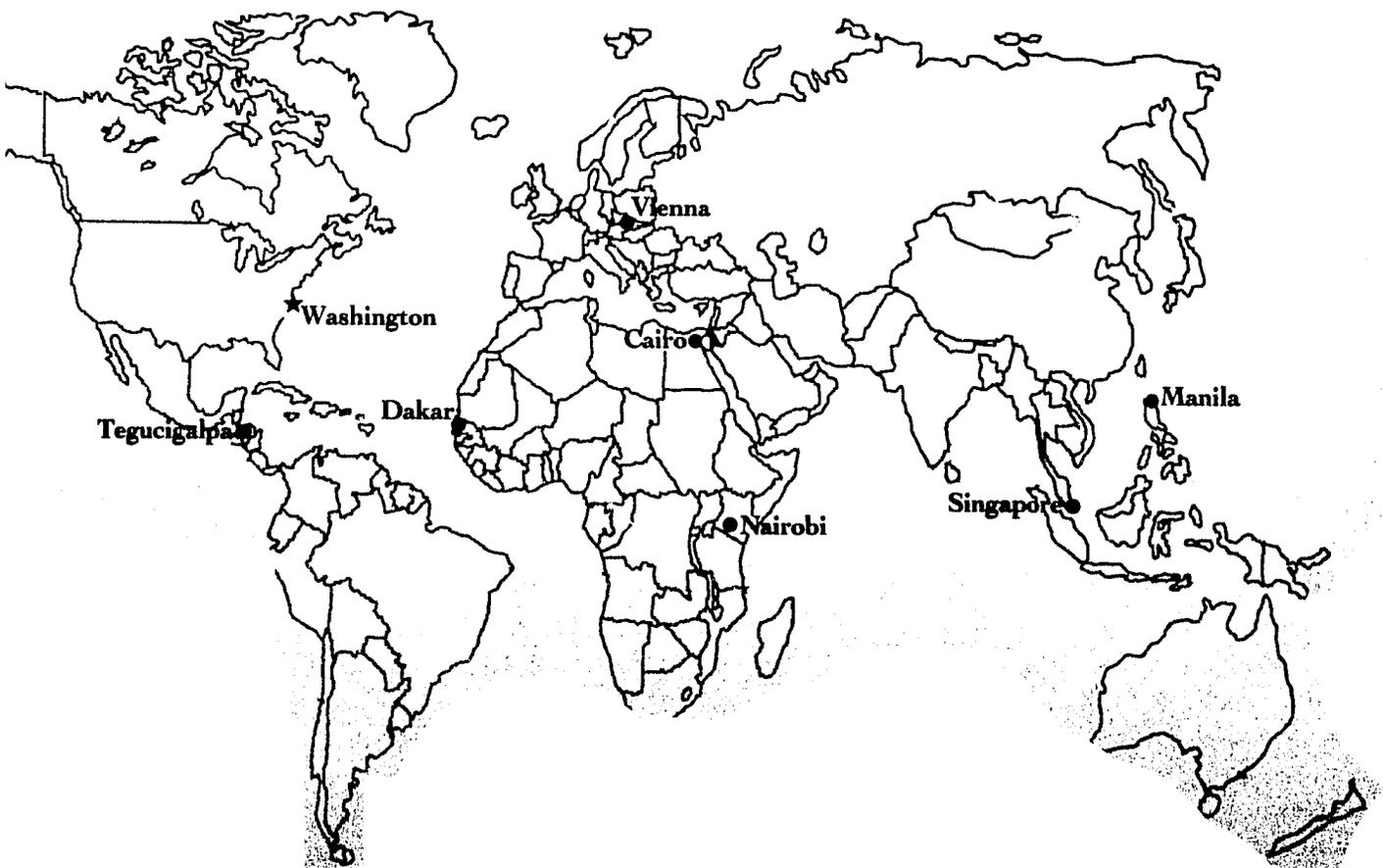

**Audit of
USAID/Swaziland's Management of
Audit Requirements To Achieve
Accountability for A.I.D. Funds**

Report No. 3-645-92-04
December 20 , 1991



**Audit of
USAID/Swaziland's Management of
Audit Requirements
To Achieve Accountability
For A.I.D. Funds**

**Audit Report No. 3-645-92-04
December 20, 1991**

With some exceptions, USAID/Swaziland has complied with A.I.D. policies concerning management of audit requirements. Audits of A.I.D. disbursements of \$199,454 to a Swazi NGO were not reviewed or used by USAID/Swaziland and did not meet required auditing standards. USAID/Swaziland needs to provide greater accountability over A.I.D. funds by establishing an audit tracking system or designating an official to ensure required audits are performed and recipient audits meet applicable auditing standards.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

December 20, 1991

MEMORANDUM

TO : Roger D. Carlson, Director, USAID/Swaziland

FROM : Toby L. Jarman, RIG/A/Nairobi 

SUBJECT: Audit of USAID/Swaziland's Management Of Audit Requirements to Achieve Accountability For A.I.D. Funds

Enclosed are five copies of our audit report on USAID/Swaziland's Management of Audit Requirements to Achieve Accountability for A.I.D. Funds, Report No. 3-645-92-04.

We reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments and the actions taken by the Mission, Recommendation No. 2 is closed. Recommendation No. 1 will be resolved when we obtain your agreement to amend one of the cited grant agreements and receive additional explanatory comments (see page 12) regarding the other cited agreements. Recommendation No. 3 will be resolved when we obtain your agreement to establish written procedures to help ensure compliance with new A.I.D. policy requirements concerning recipient audits. Please advise me within 30 days of any actions taken or planned to implement the recommendations.

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

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 audits are an important internal

control technique which serve to verify that A.I.D. funds are properly accounted for and used for authorized purposes. A.I.D. assistance agreements generally specify how often audits of A.I.D. projects and programs should be performed and the auditing standards that must be met. Audits of A.I.D.-managed resources may be performed by Federal auditors, non-Federal auditors supervised by the Office of the Inspector General (mission-contracted audits), or by non-Federal auditors contracted by organizations receiving assistance (recipient-contracted audits).

As of September 30, 1990, USAID/Swaziland was managing 17 active projects (Appendix V) which were selected as the audit universe. According to a financial report received from USAID/Swaziland when initiating our audit fieldwork, these 17 projects had commitments (formal reservations of funds) of \$59.3 million and disbursements of \$42.6 million as of January 23, 1991. Of these totals, we identified commitments of approximately \$46.9 million and disbursements of approximately \$33.8 million as being auditable transactions. The remaining \$12.4 million in commitments and \$8.8 million in disbursements were used to fund contracts for individual consultants and advisors, non-contractual travel and participant training costs and minor expenditures impractical to cover in a financial audit.

Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi audited USAID/Swaziland's management of audit requirements because of the vulnerability of A.I.D. funds to fraud, waste, and abuse in the absence of these audits. The audit was designed to answer the following objectives:

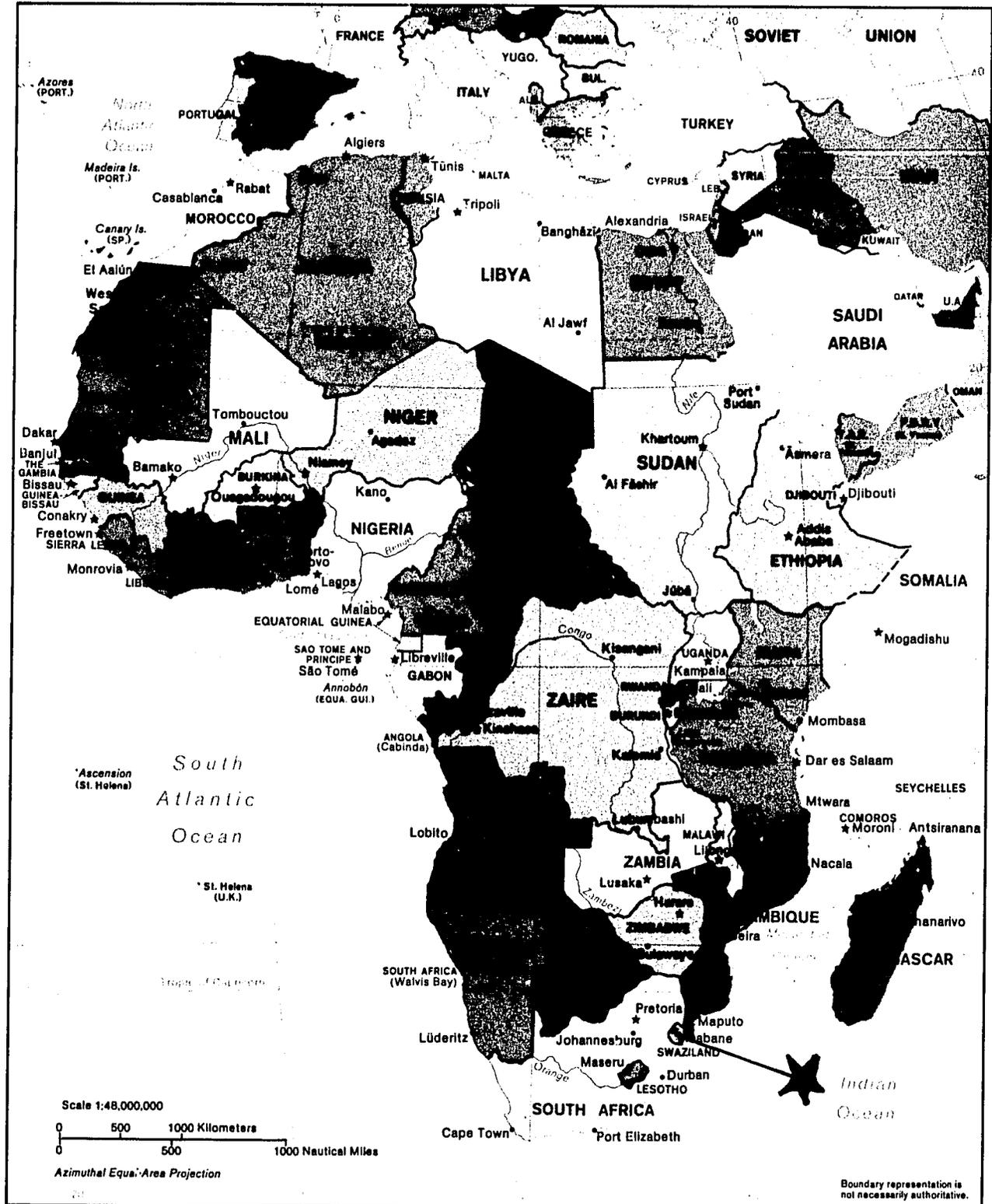
1. Did USAID/Swaziland comply with A.I.D. policy that requires assessments of the need for audits in project papers and funds for needed audits in project budgets? See page 5.
2. Did USAID/Swaziland comply with A.I.D. handbook provisions for including specified audit requirements in its project agreements, cooperative agreements, and contracts? See page 6.
3. Did USAID/Swaziland comply with A.I.D. handbook procedures and Federal regulations to ensure required audits were performed and met General Accounting Office auditing standards and that preaward surveys were conducted when required? See page 7.
4. Did USAID/Swaziland comply with Federal requirements to resolve and implement audit recommendations? See page 11.

In answering these audit objectives, we tested whether USAID/Swaziland (1) followed applicable internal control procedures and (2) complied with certain provisions of regulations, policies, grants and contracts. Our tests were sufficient to provide reasonable - but not absolute - assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Swaziland followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work:

- to conclusively determine that USAID/Swaziland was not following a procedure or not complying with a legal requirement,
- to attempt to identify the cause and effect of the problems, and
- to make recommendations to correct the condition and cause of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and our reports on internal controls and compliance are in Appendices III and IV respectively.

Africa



Audit Findings

Did USAID/Swaziland Comply With A.I.D. Policy That Requires Assessments Of The Need For Audits In Project Papers And Funds For Needed Audits In Project Budgets?

USAID/Swaziland has complied, except in one case, with A.I.D. policy requiring assessments of the need for audit in project papers and inclusion of funds for needed audits in project budgets.

The USAID/Swaziland Controller reviews project papers before approval to ensure they include, among other things, assessments of audit need. In discussions during the audit fieldwork, the Controller demonstrated an understanding of this requirement and all project papers had been signed by the Controller as part of the approval process. A.I.D. policy has required inclusion of assessments of audit need in project papers since December 1983 and six of seven USAID/Swaziland project papers prepared after 1983 contained the required assessments. We are not recommending the correction of the remaining project paper, prepared in 1985, because the project is being implemented by a U.S. nongovernmental organization that will be audited in the U.S. through Office of Management and Budget (OMB) Circular A-133 and a mission-contracted audit (formerly called non-Federal audit) is not required.

The USAID/Swaziland Controller is similarly reviewing project and grant agreements before approval to ensure they include project funding for necessary mission-contracted audits as required by A.I.D. Payment Verification Policy Statement No. 6. One specific type of audit coverage that should be budgeted for is mandated by A.I.D. Contract Information Bulletin (CIB) 90-12 that requires final audits for all contracts, grants and cooperative agreements that exceed \$500,000. We reviewed project files and financial reports for all of USAID/Swaziland's 17 projects and determined that only two projects had a requirement for a mission-contracted audit. Both project budgets contained funding for audits.

Did USAID/Swaziland Comply With A.I.D. Handbook Provisions For Including Specified Audit Requirements In Its Project Agreements, Cooperative Agreements, And Contracts?

USAID/Swaziland has complied, except in three cases, with A.I.D. handbook provisions to include audit requirements in its project agreements, cooperative agreements, and contracts. USAID/Swaziland had included the correct audit requirement in 21 of 24 documents we identified in our audit universe of 17 active USAID/Swaziland projects.

USAID/Swaziland officials preparing individual agreements are using sections of the A.I.D. handbooks detailing the various standard audit provisions required for each type of document. The Regional Contracting Officer and the USAID/Swaziland Controller are also reviewing these agreements before their approval to ensure they include, among other things, up-to-date standard audit requirement provisions contained in the A.I.D. handbooks. Although 21 of the 24 grants, cooperative agreements and contracts we identified in our universe of 17 active USAID/Swaziland projects contained the audit requirement specified in A.I.D. handbooks at the time the agreement was signed, three agreements omitted standard audit provisions or contained incorrect audit provisions.

Some Assistance Agreements Do Not Contain Correct Audit Requirements

A.I.D. Handbooks 3 and 13 provide specific standard audit requirement provisions to be included in the various types of assistance agreements. These agreement provisions require recipients of A.I.D. funds to provide audit coverage of the expenditure of these funds. Most USAID/Swaziland assistance agreements contain the proper audit requirement, however, three agreements contain either the wrong audit requirement or no audit requirement. It could not be determined why the correct audit requirements were not incorporated into two of these agreements because they were prepared in 1984. In a third agreement with a non-U.S. nongovernmental organization (NGO) prepared in 1990, the standard provisions (including audit requirements) for a U.S. NGO were incorrectly annexed to the agreement. The grant agreement did, however, contain references to the annual audit required of non-U.S. NGO's. Unless the proper audit requirements are included in assistance agreements, recipients may not arrange for audit coverage of project activities involving disbursements totaling \$1,074,840.

Recommendation No. 1: We recommend that the Director, USAID/Swaziland amend three agreements (Project Nos. 645-0234, 690-0215.45 and 698-0421.45) to include the proper audit provisions required in the A.I.D. handbooks.

A.I.D. handbooks contain standard audit provisions to be included in agreements involving host government and non-U.S. NGO participation in A.I.D. projects, as follows:

- A.I.D. Handbook 3, Appendix 6A-2, section B.5 requires foreign government participation in A.I.D. projects to be audited "regularly" in accordance with generally accepted auditing standards.
- A.I.D. Handbook 13, Appendix 4D requires that funds provided to non-U.S., nongovernmental grantees be included in the grantee's annual independent audit.

Two grant agreements with the Government of Swaziland (regional Project Nos. 690-0215.45 and 698-0421.45) did not contain the standard audit provisions specified in A.I.D. Handbook 3 at the time they were prepared in 1984. One of the agreements omitted an audit requirement and the other used an incorrect audit provision. The exact cause of these errors in preparing grant agreements 7 years ago could not be determined.

In a third case involving a 1990 agreement with a Swazi NGO (Project No. 645-0234, Business Management Extension Programme), A.I.D. mandatory standard provisions for agreements with U.S. NGO's were inadvertently attached to the agreement. The grant agreement itself, however, contained references to the need for the annual audit required by A.I.D. of non-U.S. NGO's.

As a result of these errors, project activities with disbursements totaling \$1,074,840 may not be audited as required by A.I.D. Handbooks 3 and 13.

Did USAID/Swaziland Comply With A.I.D. Handbook Procedures And Federal Regulations To Ensure Required Audits Were Performed And Met General Accounting Office Auditing Standards And That Preaward Surveys Were Conducted When Required?

USAID/Swaziland has not fully complied with A.I.D. handbook procedures and Federal regulations as it has not ensured that all required audits are performed and meet applicable standards. However, preaward surveys of entities receiving A.I.D. funds are performed as required.

Preaward surveys, or financial responsibility reviews, were being conducted as required by Federal Acquisition Regulation Section 9.106. Our review of the grants, cooperative agreements, and contracts with the American organizations and universities implementing the USAID/Swaziland portfolio disclosed that preaward surveys were not required because of the amount of funding involved or because of their prior history of receiving Federal funding. In addition, the USAID/Swaziland Controller's Office performed limited financial reviews of the administrative and accounting capacities of three Swazi NGO's prior to granting them A.I.D. funding. As a result of these reviews, USAID/Swaziland determined these organizations to have adequate financial capability to preclude the need for preaward surveys. Our review of these financial responsibility reviews found that they provided sufficient support for making these determinations.

USAID/Swaziland uses the Government of Swaziland on a limited basis to implement its projects. In the one case where Government of Swaziland project activity should have already been audited, USAID/Swaziland was working with RIG/A/N in obtaining a mission-contracted audit of the project. Also, the Regional Contracting Officer is successfully using a contract/grant tracking system to monitor active agreements and ensure that required closeout audits are requested. In our test of this system we found that USAID/Swaziland had requested closeout audits for the three contracts in our audit universe that had already been completed.

However, independent audits have not been used by USAID/Swaziland as an internal control technique to verify that A.I.D. funds disbursed to local NGO's have been properly accounted for and used for authorized purposes. USAID/Swaziland did not ensure that required recipient audits of project activities were performed or met the auditing standards required by A.I.D. handbooks and OMB Circular A-73.

**Reports of Required Recipient
Audits Not Reviewed**

Reports of recipient audits of USAID/Swaziland project activities, required by A.I.D. Handbook 13, were not reviewed because USAID/Swaziland does not have a monitoring system or designated official to track the performance of required audits. As a result, audits of project activities, with disbursements totaling \$199,454, have not been effectively used by USAID/Swaziland.

Recommendation No. 2: We recommend that the Director, USAID/Swaziland establish a mission audit policy that designates the mission controller as the official responsible for ensuring required audits of USAID/Swaziland projects, including closeout audits, are performed and monitored.

A.I.D. Handbook 13, Appendix 4D requires that funds provided to non-U.S., nongovernmental grantees be included in the grantee's annual independent audit, and that these audits are reviewed by A.I.D. to determine the adequacy of coverage.

Although USAID/Swaziland uses Swazi NGO's on a very limited basis (currently only 1 percent of USAID/Swaziland's disbursements to auditable entities), USAID/Swaziland officials did not know whether required annual audits of Swazi NGO's had ever been performed and no one had been delegated the responsibility to ensure grantee audit requirements were met. At the time of our audit, one of the three Swazi NGO's implementing USAID/Swaziland projects (Project No. 645-0228, Family Health Services) should have already submitted two annual audit reports for A.I.D. review. The audits had

been performed but the audit reports were not submitted to USAID/Swaziland until requested during our audit. The other two Swazi NGO's had not been receiving A.I.D. funds for a sufficient time to expect an audit to have been performed or a report submitted for review.

USAID/Swaziland does not have a monitoring system to track whether required recipient audits have been performed or a designated official, such as the Mission Controller, to be responsible for ensuring the audits are performed. Mission officials explained they had been informed that audits were being performed on a regular basis but had not required the auditee to submit audit reports to A.I.D.

Without a monitoring system or designated official to track the performance of required audits, audits of project activities with disbursements totaling \$199,454 have not been used by USAID/Swaziland as an internal control technique to verify the proper use of A.I.D. funds.

Auditing Standards Not Fully Met

A.I.D. and OMB policies require that annual audits of non-U.S. NGO's be made in accordance with General Accounting Office (GAO) auditing standards to meet grant audit requirements. Annual audits of Swazi NGO's, however, have not complied with these auditing standards and USAID/Swaziland officials had not reviewed these audit reports to determine if they meet auditing standards. As a result, disbursements to a Swazi NGO totalling \$199,454 have not received the audit coverage required by A.I.D. and OMB.

Recommendation No. 3: We recommend that the Director, USAID/Swaziland establish written procedures to help ensure new A.I.D. policy requirements concerning quality control of recipient audits are followed. This policy requires USAID/Swaziland to provide the audit reports to RIG/A/N for desk review and selected quality control reviews and also contains guidance to be provided to indigenous nongovernmental organizations on conducting the audits.

Since June 1983, OMB Circular A-73 has required audits to meet GAO auditing standards before they can be relied on by Federal agencies. Accordingly, A.I.D. Handbook 13, Appendix 4D was amended effective May 1991 to specifically require annual audits of non-U.S. NGO's to meet GAO auditing standards.

The two annual audit reports received from Swazi NGO's to date did not comply with GAO auditing standards. The reports are generally limited to a presentation of audited financial statements, as opposed to an audit covering compliance with grant terms and the use of

A.I.D. funds. These audit reports:

- did not include a report on internal controls identifying items tested and the weaknesses detected (as required by GAO auditing standards),
- did not include a statement on the organization's compliance with grant terms (as required by GAO auditing standards), and
- did not include any recommendations, findings or questioned costs.

As discussed under the preceding section, USAID/Swaziland officials had never reviewed the audit reports and did not know whether auditing standards had been met. USAID/Swaziland officials stated that they do not have the expertise to effectively evaluate the quality of these audits or determine whether they comply with GAO auditing standards.

As a result, independent audits that were intended to provide audit coverage of the use of A.I.D. funds are of questionable value as currently presented and total A.I.D. disbursements of \$199,454 to a Swazi NGO implementing a USAID/Swaziland project may not have received adequate audit coverage.

This problem should be corrected in the future as a result of the May 1991 revision of the standard audit provisions in A.I.D. Handbook 13. The new audit provisions require recipient audits to be performed annually in accordance with GAO auditing standards and require the A.I.D. Inspector General to determine whether the reports comply with the audit requirements of Handbook 13. The A.I.D. Inspector General has issued "Guidelines for Financial Audits Contracted by Foreign Recipients" for the use of independent auditors in conducting the audits. USAID/Swaziland should provide copies of the guidelines to recipient organizations to help ensure that future recipient audits are conducted in accordance with A.I.D. Handbook 13.

Did USAID/Swaziland Comply With Federal Requirements To Resolve And Implement Audit Recommendations?

In our opinion, USAID/Swaziland has complied with federal requirements to resolve and implement recommendations in GAO and A.I.D. Inspector General audit reports.

The USAID/Swaziland Controller's Office has a system for monitoring recommendations in GAO and A.I.D. Inspector General audit reports to ensure each is resolved and corrective

action, as appropriate, is implemented. Until the time of our audit, USAID/Swaziland had not received any of the required annual audits of Swazi NGO's, but mission officials stated this same system would be used to monitor corrective actions required by these audits. The mission audit policy called for in Recommendation No. 2 of this report should include a provision to monitor these audits in the same manner as GAO and A.I.D. Inspector General audit reports.

Management Comments And Our Evaluation

USAID/Swaziland partially agreed with the report's recommendations as follows:

- Concerning Recommendation No. 1 (page 7), management stated that revision of the three project agreements was unnecessary. For Project Agreement Nos. 690-0215.45 and 698-0421.45, management contends the standard audit provision is not necessary because a mission-contracted audit of one project is now underway and a waiver of the requirement for a closeout audit of the second project has been requested. For Project Agreement No. 645-0234, management states the correct standard provisions are already annexed to the agreement.
- In response to Recommendation No. 2 (page 9), management has issued a Mission directive establishing the Mission's audit policy. This directive designates the Mission Controller as the responsible official for coordination of the Inspector General (IG) audit function, including recipient audits, and should result in more effective use of these audit reports.
- Concerning Recommendation No. 3 (page 10), management states that it is obtaining audit reports and information about CPA firms who audit the implementors of USAID/Swaziland projects and is providing IG guidelines on conducting financial audits to nongovernmental organizations (NGO's).

We appreciate USAID/Swaziland's comments. On the basis of these comments, we consider Recommendation No. 2 as closed upon issuance of the report. Our evaluation of management response to the remaining two recommendations follows:

- Concerning Recommendation No. 1, we believe that the A.I.D. requirements to include specific audit provisions in all A.I.D. agreements -- requiring recipient-contracted audits -- exists whether or not a mission-contracted audit of a project is ever performed. In the case of agreements with the host government, such as with Project Nos. 690-0215.45 and 698-0421.45, the A.I.D. audit requirement is only for "regular" audits and the performance of a mission-contracted audit would naturally

affect the timing or scheduling of these audits by the recipient. The logic of bothering to amend these agreements at this late point in project implementation is dependent on whether the projects will be continuing for more than a few months and not on whether mission-contracted audits are needed or being performed.

In the case of Project Agreement No. 645-0234, copies of the agreement we reviewed in the Mission Controller's and the project officer's project files had the wrong standard provisions annexed to the agreement as discussed in this finding. This discrepancy can not be corrected by substituting the correct provisions in the Mission's copies of the agreement but will require an amendment to the agreement.

Concerning Recommendation No. 3, the actions taken by management and described in their comments are acknowledged as a positive and constructive response to the new A.I.D. policy requirements. However, our recommendation has been slightly reworded to clarify our intent to have written procedures to help ensure these activities are continued in the future and not just during the current year. These procedures could be in the form of a Mission directive or a Mission Controller's statement of procedures.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Swaziland's compliance with audit requirements in accordance with generally accepted government auditing standards. We conducted the audit from April 29, 1991 to May 17, 1991, and covered the systems and procedures relating to compliance with audit requirements as of September 30, 1990. As noted below, we conducted our field work in the offices of USAID/Swaziland. Our audit included review and analysis of all project papers, agreements and contracts for the 17 projects managed by USAID/Swaziland (excluding project development and support funds) that were active as of September 30, 1990. These projects had commitments of \$59.3 million and disbursements of \$42.6 million as of January 23, 1991, according to the A.I.D.'s Mission Accounting and Control System (MACS) financial report we were provided by USAID/Swaziland.

MACS data was used primarily to determine the impact of noncompliance with audit requirements in various USAID/Swaziland projects. Financial information in the MACS report was validated by randomly selecting eleven commitment documents from the MACS Comprehensive Pipeline Report (PO7A) and obtaining a MACS Commitment Liquidation Record (PO4) for each of those commitments. Individual payments listed on the PO4 report were traced without exception to the payment vouchers on file in the USAID/Swaziland Controller's office.

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first objective was to determine whether USAID/Swaziland had complied with A.I.D. policy to ensure that project papers include assessments of the need for audits and that project funds are budgeted for them when necessary.

To accomplish the above, we examined all seven project papers, prepared after December 1983, for the USAID/Swaziland projects that were active as of September 30, 1990 to determine whether assessments of the need for audits were included in the project papers. The policy statement requiring this was issued in December 1983.

We reviewed the Mission Controller's project files and the MACS PO7A Comprehensive Pipeline Report for each of the 17 USAID/Swaziland projects and determined which organizations or governmental entities were receiving project funds. With this information we determined which organizations had a need or requirement for audit that should have been budgeted for in the project agreement. Government agencies receiving A.I.D. funds were considered to have a need for audit because the Government of Swaziland does not provide adequate audit coverage of these funds. Government agencies and Swaziland nongovernmental organizations (NGO's) programmed to receive more than \$500,000 were also considered to have a need for audit because of the final audit requirements in Contract Information Bulletin 90-12. We reviewed all 24 grant agreements and contracts to determine whether project funds were budgeted for audit when necessary.

We interviewed personnel working in the USAID/Swaziland Project and Controller Offices who are responsible for ensuring that project papers include assessments of audit need and that project budgets provide for audits accordingly.

Audit Objective Two

To answer the second objective, we determined whether USAID/Swaziland complied with A.I.D. handbook provisions for including specified audit requirements in its project agreements, cooperative agreements, and contracts. To accomplish this, we interviewed personnel in the USAID/Swaziland Project and Controller Offices and the Regional Contracting Officer who are responsible for preparing these agreements or reviewing them for compliance with A.I.D. requirements before they are executed. We also reviewed all of the 24 USAID/Swaziland agreements and contracts we identified that were associated with its 17 projects active as of September 30, 1990 and determined whether they included standard agreement provisions regarding audit requirements that were in effect at the time the document was executed.

Audit Objective Three

To answer the third objective, we determined whether USAID/Swaziland ensured that audits are performed as required and in accordance with applicable GAO standards and that preaward surveys were conducted when required.

To accomplish this, we interviewed personnel in the USAID/Swaziland's Project and Controller Offices to determine whether reports of required audits were on file and whether USAID/Swaziland used any type of system to track required audits or whether an individual had been designated to monitor compliance with audit requirements. We also reviewed financial reviews performed by the USAID/Swaziland Controller's Office that precluded the need for preaward surveys of several Swaziland NGO's. We also reviewed the contract/grant tracking system used by the Regional Contracting Officer to monitor active agreements that will eventually need to be closed out and may require final audits.

To determine whether audits performed met GAO audit standards we reviewed the two audit reports covering audits of Swazi NGO's to evaluate the extent of audit coverage. Specifically, we determined whether these audit reports included statements to indicate the audits covered compliance with grant terms and the use of A.I.D. funds. We determined that both of these reports of recipient audits did not include attributes normally found in independent audits of Federal programs such as: (1) identifying auditing standards used, (2) a report on internal controls, (3) a statement on the organization's compliance with grant terms, and (4) recommendations, findings, or questioned costs.

Audit Objective Four

To answer the fourth objective, we determined whether USAID/Swaziland had established a monitoring system to ensure that audit recommendations are resolved and implemented. To accomplish this, we interviewed the USAID/Swaziland Controller and compared USAID/Swaziland audit resolution records with all Office of the Regional Inspector General For Audit/Nairobi listings of outstanding audit recommendations to determine whether there were any differences.

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APPENDIX III

Page 1 of 2

ACTION AID 5

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SUBJECT: DRAFT MEMORANDUM AUDIT REPORT - AUDIT OF USAID/SWAZILAND'S COMPLIANCE WITH AUDIT REQUIREMENTS

1. BELOW ARE OUR COMMENTS ON SUBJECT DRAFT MEMORANDUM AUDIT.

Deleted - relates to matters not included in final report.

3. A) PAGE 11, RECOMMENDATION NO. 2***MISSION RECORDS SHOW COOPERATIVE AGREEMENT 645-8234 HAS ANNEXED TO IT STANDARD PROVISIONS FOR NON US NON GOVERNMENTAL ORGANIZATIONS. DOES NAIROBI NEED A COPY OF THE AGREEMENT TO CLOSE THIS RECOMMENDATION? PLEASE ADVISE.

B) RE PROJECT AGREEMENT 693-8421.45 WE SEE NO REASON TO AMEND THE AGREEMENT TO ADD AUDIT REQUIREMENTS SINCE THE PROJECT BUDGET WILL BE AMENDED TO PROVIDE FUNDS FOR AUDIT. HOWEVER, ASSUMING YOU ACCEPT OUR WAIVER REQUEST, THE AUDIT WILL NOT BE REQUIRED. PLEASE ADVISE.

C) RE PROJECT 698-8215.45. THIS PROJECT IS BEING AUDITED BY NON FEDERAL AUDITORS. WE REQUEST THAT NO FURTHER ACTION BE TAKEN TO AMEND AN AGREEMENT THAT IS BEING AUDITED ACCORDING TO THE NEA REQUIREMENTS AND STANDARDS.

* Report title has been changed

** Recommendation deleted

*** Now No. 1

**** Now No. 2

4. A) PAGE 15, RECOMMENDATION NO. 3. WE ARE SENDING VIA DHL A COPY OF MISSION DIRECTIVE 1387 DATED MAY 31, 1991 ESTABLISHING THE MISSION AUDIT POLICY. THE MISSION CONTROLLER IS DESIGNATED AS THE RESPONSIBLE OFFICIAL FOR ENSURING REQUIRED PROJECT AUDITS. UPON RECEIPT OF THE MISSION DIRECTIVE WE REQUEST THIS DRAFT RECOMMENDATION

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29 CLOSED.

5. PAGE 13, RECOMMENDATION NO. 4. THE CONTROLLER'S OFFICE, IN RESPONSE TO A RIG/A INQUIRY AND IN RESPONSE TO THIS RECOMMENDATION IS OBTAINING AUDIT REPORTS AND INFORMATION ABOUT CPA FIRMS WHO AUDIT THE IMPLEMENTORS OF AID FUNDED PROJECTS. AIDS ARE BEING PROVIDED IN GUIDELINES ON CONDUCTING FINANCIAL AUDITS THROUGH THE USAID/SWAZILAND REGIONAL FINANCIAL MANAGEMENT OFFICE'S FINANCIAL ANALYST. AS WE RECEIVE COPIES OF AUDITS THEY WILL BE FORWARDED TO RIG/A/NAIROBI.

B) WE REQUEST RECOMMENDATION BE CLOSED SINCE WE WILL BE SENDING REQUIRED REPORTS OR FOLLOWING UP WITH CONTRACTORS AND GRANTEES TO ENSURE THE NECESSARY AUDIT WORK IS DONE. ROGERS

TEL #6463

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**REPORT ON
INTERNAL CONTROLS**

This section provides a summary of our assessment of internal controls for the audit objectives in our audit of USAID/Swaziland's compliance with audit requirements.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit's objectives and not to provide assurance on the auditee's overall internal control structure.

We have classified significant internal control policies and procedures applicable to the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation -- and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. Under this Act and the Office of Management and Budget's

(OMB) implementing policies, the management of A.I.D., including USAID/Swaziland, is responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

The objectives of internal controls and procedures for Federal foreign assistance are to provide management with reasonable -- but not absolute -- assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

The audit objective relates to USAID/Swaziland's compliance with A.I.D. policies requiring assessments of audit need and budgeting project funds for audits. In planning and performing our audit of USAID/Swaziland's compliance with A.I.D. audit planning and budgeting requirements, we considered the applicable internal control policies and procedures cited in A.I.D. Payment Verification Policy Statement No. 6 and A.I.D. Contract Information Bulletin (CIB) 90-12. For the purposes of this report we have classified policies and procedures into the following categories: the project planning and budgeting processes.

We reviewed USAID/Swaziland's internal controls relating to the project planning and budgeting processes and our tests show no significant weaknesses in USAID/Swaziland's controls which were logically and consistently applied.

Conclusions for Audit Objective Two

The audit objective relates to USAID/Swaziland's compliance with A.I.D. handbook provisions to include specified audit requirements in project agreements and contracts. In planning and performing our audit of these agreements and contracts, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 13. For the purposes of this report, we have classified policies and procedures into the following category: the contract and agreement preparation process.

We reviewed USAID/Swaziland's internal controls relating to the contract and agreement preparation process. Although we noted deficiencies in the area and recommended that

three project agreements be amended, we do not consider the deficiencies to be significant internal control weaknesses. Overall, USAID/Swaziland applied the internal controls logically and consistently.

Conclusions for Audit Objective Three

The audit objective relates to USAID/Swaziland's compliance with regulations to ensure required audits are performed and meet GAO auditing standards and that preaward surveys are conducted when required. In planning and performing our audit of USAID/Swaziland's compliance with audit requirements, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 13, CIB 90-12, OMB Circular No. A-73 and the Federal Acquisition Regulations. For the purposes of this report, we have classified policies and procedures into the following categories: the project audit process and the preaward survey process.

We reviewed USAID/Swaziland's internal controls relating to preaward surveys and our tests showed no significant weaknesses in USAID/Swaziland's controls which were logically and consistently applied. Our review of USAID/Swaziland's internal controls relating to ensuring whether audit requirements are met showed that such controls do not exist and therefore we could not rely on them in designing our audit approach. However, we reviewed audit-related records in the USAID/Swaziland Project and Controller Offices to determine the extent audit requirements had been met. Recommendation Nos. 2 and 3 address these internal control weaknesses.

Conclusions for Audit Objective Four

The audit objective relates to USAID/Swaziland's compliance with requirements to resolve and implement audit recommendations. For this objective, the categories of applicable internal controls and the reportable problems are covered under audit objective three.

REPORT ON COMPLIANCE

This section provides a summary of our conclusions on USAID/Swaziland's compliance with applicable laws and regulations dealing with audit requirements.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Swaziland's compliance with Office of Management and Budget (OMB) Circular A-73 as it relates to our audit objectives. However, our objective was not to provide an opinion on USAID/Swaziland's overall compliance with OMB Circular A-73.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is distinguished from noncompliance in that

abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with OMB Circular A-73 is the overall responsibility of USAID/Swaziland's management.

Conclusions on Compliance

The results of our tests of compliance disclosed that financial audits contracted by Swazi nongovernmental organizations did not meet General Accounting Office auditing standards as required by OMB Circular A-73 (see page 9). Newly-established A.I.D. policy requires these reports to be provided to the applicable regional inspector general for audit, through the individual missions, for desk reviews and selected quality control reviews. Implementation of this policy, contained in Recommendation No. 3 of this report, should enable USAID/Swaziland to comply with this OMB requirement.

APPENDIX V

USAID/Swaziland Projects
(That Were Active As of September 30, 1990)

<u>Project</u>	<u>Commitments*</u>	<u>Disbursements*</u>
Cropping Systems Research	\$12,604,627	\$10,573,193
Teacher Training	6,133,796	5,694,788
Manpower Development Assistance	9,453,840	15,377,265
Primary Health Care	5,470,918	4,603,065
Family Health Services	1,400,000	520,746
Commercial Agri. Prod. & Market	3,367,000	2,117,627
Educ. Policy, Mgnt. & Technology	999,152	352,988
Swaziland Training & Instit. Develop.	890,000	-
Small Enterprise Advisory Support	620,000	-
Small Projects Assistance	1,762	1,762
Business Management Extension	251,000	81,705
SADCC Technical Support	2,359,716	1,396,998
Regional Rail Systems Support	4,693,723	1,043,200
Combating Child. Comm. Diseases	664,727	516,856
Africa Private Enterprise Fund	128,645	100,605
Small Projects Assistance Funds	200,739	200,519
Innovative Scientific Research	<u>32,000</u>	<u>10,121</u>
Totals	<u>\$59,271,645</u>	<u>\$42,591,438</u>

* Commitment and disbursement amounts are as of January 23, 1991

Source: MACS PO7A Report - Comprehensive Pipeline Report

APPENDIX VI

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