

**Regional Inspector General for Audit  
Dakar**

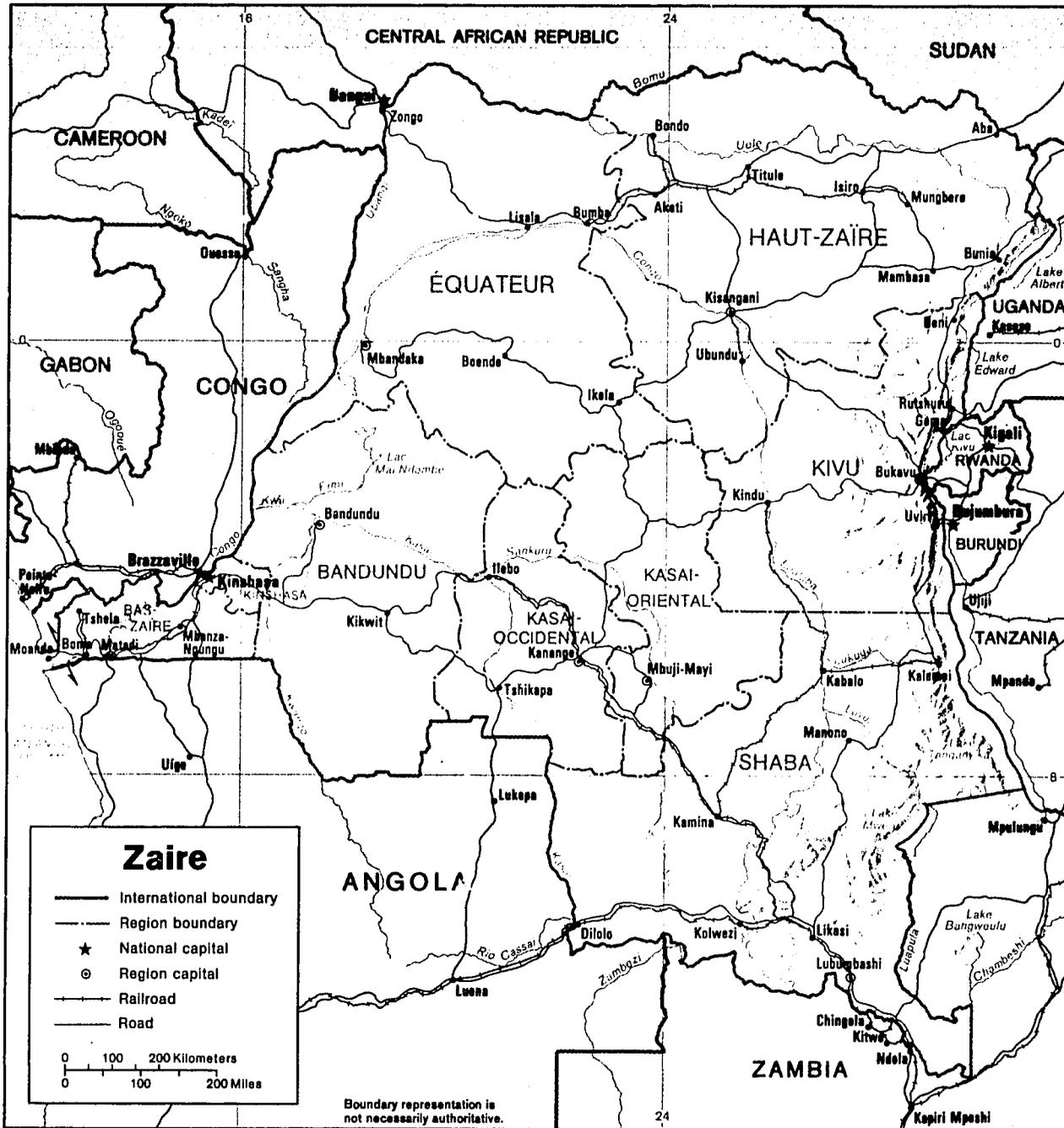
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**Audit of USAID/Zaire's Management of Audit Requirements  
to Achieve Accountability for A.I.D. Funds**

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**Report No. 7-660-92-06  
March 24, 1992**





UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

March 24, 1992

**MEMORANDUM**

TO: Charles W. Johnson, Director, USAID/Zaire

FROM: Paul E. Armstrong, RIG/A/Dakar 

SUBJECT: **Audit of USAID/Zaire's Management of Audit Requirements to Achieve Accountability for A.I.D. Funds - Audit Report No. 7-660-92-06**

Enclosed is a copy of our final report on subject audit. In preparing this report, we considered your comments cabled on March 14, 1992 (State 080879) and made revisions wherever appropriate. The full text of your cable and our comments are included in pages 11 to 14 of this report.

We were not able to fully answer the audit objectives because USAID/Zaire management declined to provide us a representation letter confirming all information essential for us to reach a professional conclusion. Instead, they proposed a representation letter which did not satisfy our professional requirements. This scope limitation is discussed in detail in Appendices I and II.

The report makes three recommendations, of which Recommendation No. 3.1 is considered resolved because of actions taken by USAID/Zaire. The remaining recommendations are suspended because no corrective actions are now feasible due to the evacuation of Mission personnel following the civil disturbances in Zaire in September, 1991. Until the Mission reopens, we will reevaluate the suspended recommendations every six months to determine if these are valid and actionable. You will be notified if any recommendation is reinstated or closed as a result of our review.

I appreciate your cooperation to my staff during the audit.

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**Background**

Audits of A.I.D.-funded projects and programs are performed periodically to determine if U.S. Government resources are properly accounted for and used only for authorized purposes. The A.I.D. Office of the Inspector General (OIG) is the Agency's cognizant audit office under the Inspector General Act of 1978. Audits are conducted either by OIG staff or non-Federal auditors under OIG supervision. In addition to OIG controlled audits, organizations receiving A.I.D. assistance also contract for independent audits.

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Circular No. A-73, issued by the Office of Management and Budget (OMB), requires that Government Agencies provide adequate audit coverage of their programs conducted in accordance with generally accepted government auditing standards.

Other audit guidance issued by A.I.D. and the OMB include the following:

- A.I.D. Payment Verification Policy Statement No. 6 requires project papers to include an assessment of audit needs, and budget project funds for audits unless adequate host government audit coverage is reasonably assured or audits are not warranted.
- A.I.D. Handbooks 3 and 13 require standard audit clauses in project and cooperative agreements and contracts. These guidelines also specify that: A.I.D.-funded host government grants are to be audited "regularly", non-U.S., non-governmental assistance agreements annually, and U.S. non-governmental grantees at least every two years. In addition, OMB Circular No. A-133 mandates audits of U.S. non-governmental organizations (NGOs) at least every two years. (See note below).
- A.I.D. Handbook 13, Chapter 4, states that a preaward survey should be performed when A.I.D. is unable to determine whether the potential recipient's accounting, record keeping and financial management systems meet Agency standards.
- A.I.D. Contract Information Bulletin No. 90-12 requires contract and grant officers to request cognizant audit offices to conduct close-out audits of all contracts and agreements exceeding \$500,000.

Projects requiring a budget for audits include (1) those implemented partially or entirely by host governments which do not arrange for audits of A.I.D. funds and (2) host country NGO's or contractors which do not provide for audits of A.I.D. funds received.

Projects not requiring a budget for audits include (1) projects implemented by U.S.-based NGOs which are audited by independent public accountants in the U.S. as mandated by OMB Circular No. A-133; (2) U.S.-based contractors who are subject to audit in the U.S.; and (3) host country NGOs or contractors which are audited annually by independent auditors in the host country.

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*Note: NGO means any corporation, trust, association, cooperative or other organization which 1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; 2) is not organized primarily for profit; and 3) uses its net proceeds to maintain, improve, and/or expand its operations.*

As of September 30, 1990, USAID/Zaire had a portfolio of 32 active projects. Commitments and disbursements for these 32 projects totalled approximately \$158 million and \$104 million, respectively, as of August 31, 1991. The audit reviewed a sample of 12 projects with commitments and disbursements totalling approximately \$110 million and \$77 million, respectively (see Exhibit 1).

Other than the aforementioned mandatory audits, USAID/Zaire may, at its discretion, initiate audits and budget funds accordingly if it has specific concerns relating to any project, program or activity in its portfolio.

Because of the Government of Zaire's (GOZ) inability to meet its U.S. debt obligations, the "Brooke Amendment" became effective in June 1991. Sanctions imposed by this amendment will result in limiting funds to (1) humanitarian assistance programs, such as emergency food aid and (2) on-going projects considered counterproductive to terminate in mid-stream.

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## **Audit Objectives**

The Office of the Regional Inspector General for Audit, Dakar (RIG/A/Dakar) performed the Audit of USAID/Zaire's Management of Audit Requirements to Achieve Accountability for A.I.D. Funds to answer the following audit objectives:

Did USAID/Zaire comply with:

1. A.I.D. policy that requires an assessment of audit needs in project papers and allocation of funds for audits in project budgets?
2. A.I.D. procedures for including standard audit clauses in its project agreements, cooperative agreements, and contracts?
3. A.I.D. procedures and applicable Federal Government regulations to ensure that required audits and preaward surveys are performed?
4. Federal Government requirements to address audit recommendations?

This report has excluded the fourth objective because the necessary audit work could not be performed due to serious civil disturbances and riots in Zaire. See page 16 for details.

The above objectives were intended to enable us to determine if A.I.D. program funds earmarked for Zaire had adequate audit coverage and USAID/Zaire had reasonable assurance that U.S. Government-provided resources were properly accounted for and used only for authorized purposes.

In answering the objectives, we tested whether USAID/Zaire (1) followed applicable internal control procedures, and (2) complied with certain provisions of Federal regulations and

A.I.D. policies. Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Zaire 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 whether USAID/Zaire was following a procedure or complying with a legal requirement;
- identify the cause and effect of the problems; and
- make recommendations to correct the condition and cause of the problems.

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## **Audit Findings**

We are not able to fully answer our audit objectives because USAID/Zaire management declined to provide us all the information essential for us to reach a professional conclusion.

For example, the Mission management did not provide written confirmation that to the best of their knowledge and belief:

- they have provided us with all the essential information,
- the information they provided was accurate and complete, and
- they had followed A.I.D.'s policies and procedures.

(A complete description of the information that the Mission would not confirm is provided in the Scope and Methodology section in Appendix II of this report.)

Without these written confirmations, we cannot fully determine whether the Mission did what it is required to do. We would, in essence, be stating that USAID/Zaire complied with A.I.D. policies and procedures when the Mission management itself was not willing or able to provide such a statement in writing.

While we therefore cannot state positively that USAID/Zaire followed applicable policies and procedures, this lack of management's written confirmation does not, however, preclude us from reporting on any problem areas that came to our attention. Based on the information provided to us and tests performed, we report the following findings and problem areas related to the audit objectives.

## **Did USAID/Zaire comply with A.I.D. policy that requires an assessment of audit needs in project papers and allocation of funds for audits in project budgets?**

For reasons stated earlier, we cannot provide a positive answer to this audit objective. However, we found one problem area: USAID/Zaire did not comply with A.I.D. policy that requires an assessment of audit needs in project papers and allocation of funds for audits in project budgets as discussed below.

### **USAID/Zaire Did Not Always Assess Need or Budget Funds for Audit**

USAID/Zaire did not always assess the need for audits in project papers and budget funds for audits in project agreements as required by A.I.D. Payment Verification Policy Statement No. 6. The Mission did not assess the need for audits in project papers or budget funds for audits in project agreements for three of the four projects in the audit sample. This occurred because cognizant USAID/Zaire officials did not comply with A.I.D. policy relating to audit requirements and did not distinguish between evaluations and audits when budgeting funds in project documents. Consequently, required audits were not performed and A.I.D. has no reliable and independent assurance that U.S. Government funds were used for their intended purposes.

#### **Recommendation No. 1: We recommend that the Director, USAID/Zaire:**

- 1.1 issue a comprehensive Mission Order on audits which should include criteria to assess audit requirements in project papers and budget funds for audits; and**
- 1.2 report the internal control weakness, which resulted in not always assessing the need for audits and budgeting funds for required audits, to the Assistant Administrator in the next vulnerability assessment statement under the Federal Managers' Financial Integrity Act.**

A.I.D. Payment Verification Policy Statement No. 6, effective date January 1, 1984, requires that project papers assess audit needs, and budget funds for audits unless adequate host government audit coverage is reasonably assured or audits are not warranted. Projects requiring a budget for audits include: (1) those implemented by host country governments which do not arrange for audits of A.I.D. funds and (2) host country non-governmental organizations or contractors which do not provide for audits of A.I.D. funds.

USAID/Zaire did not always comply with this policy. Four of the twelve projects in the audit sample required audits because they were wholly or partially implemented by indigenous organizations which did not provide adequate audit coverage of A.I.D. funds.

Mission's project documents showed that cognizant Mission officials at that time did not assess the need for audits in project papers or budget funds for audits in project agreements for three of these four projects.

There were two principal reasons why the Mission did not assess the need and budget funds for audits. First, project officers did not comply with the aforementioned A.I.D. policy. Second, project agreements did not clearly distinguish between evaluations and financial audits. For example, project budgets showed a line item called "evaluations" but excluded audits. Evaluations include reviewing the project to determine if it is meeting its goals; financial audits include expressing an opinion on whether the implementing organization's fund accountability statement was presented fairly in accordance with generally accepted accounting principles and whether expenditures were allowable and reasonable.

Consequently, required audits were not conducted and the Mission lacks an independent and reliable assurance that A.I.D. funds were used for their intended purposes. See finding under objective 3 on page 8 for further details.

Therefore, we believe a Mission Order should be established specifying the criteria to be used in assessing audit needs in project papers and budgeting funds for audits.

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**Did USAID/Zaire comply with A.I.D. procedures for including standard audit clauses in its project agreements, cooperative agreements, and contracts?**

For reasons stated earlier, we cannot provide a positive answer to this audit objective. However, USAID/Zaire's project and contract documents showed that standard audit clauses were incorporated in project agreements and contracts, which were reviewed by the Mission's contracting and financial management. No other problem areas came to our attention other than the Mission management's inability to confirm in writing essential information about its own operations.

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**Did USAID/Zaire comply with A.I.D. procedures and applicable Federal Government regulations to ensure that required audits and preaward surveys are performed?**

For reasons stated earlier, we are unable to provide a positive answer to this audit objective. However, we found two problem areas: (1) required preaward surveys were not conducted, and (2) required audits of indigenous non-governmental organizations (NGOs) were not performed. These findings are discussed below in detail.

**Preaward Surveys Were  
Not Always Performed**

A.I.D. Handbook 13 requires preaward surveys be conducted when the Agency is unable to

determine if the potential recipient's accounting, record keeping and financial management systems are adequate. However, Mission's grant documents and interviews with cognizant officials showed that USAID/Zaire did not conduct these surveys for four indigenous organizations included in our audit sample. The reasons were not documented in the Mission's files and the subsequent turnover of Mission personnel since the grant agreements were finalized between 1985 and 1990 made it impossible for us to interview those officials. In any event, A.I.D. committed \$10 million to four indigenous organizations without obtaining adequate assurance whether their financial management systems met A.I.D.'s eligibility requirements.

**Recommendation No. 2: We recommend that the Director, USAID/Zaire:**

- 2.1 include in the Mission Order (see Recommendation No. 1), a section on preaward surveys which should a) include criteria to determine when a preaward survey is necessary; b) include procedures required by the Mission to conduct the preaward survey; and c) delineate offices responsible for the preaward procedures; and**
- 2.2 report internal control weaknesses, which resulted in required preaward surveys not being conducted, to the Assistant Administrator in the next vulnerability assessment statement under the Federal Managers' Financial Integrity Act.**

A.I.D. Handbook 13, Chapter 4, titled Specific Support Grants, states that a preaward survey should be performed when A.I.D. is unable to determine whether the potential recipient's accounting, record keeping and financial management systems meet A.I.D. standards. Mission's grantee files showed that USAID/Zaire did not conduct preaward surveys for the following four of the 21 indigenous organizations in our sample:

<u>Project Number</u>	<u>Entity</u>	<u>Agreement Date</u>	<u>Agreement Amount</u>
660-0116	A.I.D.R.Z.	August 1986	\$1,110,638
660-0098	Society of Jesus	January 1988	435,800
660-0105	Maurice Delens (Z)	March 1990	5,946,207
660-0114	United Methodist	March 1985	2,500,000
		Total	<u>\$9,992,645</u>

The remaining 17 organizations in our sample did not require preaward surveys because

those entities had a prior record of receiving A.I.D. funds.

The auditors were unable to conclusively determine why preaward surveys were not conducted because the agreements in question were entered into between 1985 and 1990, prior to the arrival of the currently serving Mission Director and Controller. Also, pertinent project files and discussions with project officers did not provide any information on why preaward surveys were not performed. In any event, A.I.D. committed approximately \$10 million without ensuring that the contractors'/grantees' accounting systems could generate accurate and timely accounting information and that internal controls were adequate to satisfy the requirements for an A.I.D. contract award.

**Required Audits of Indigenous  
Non-Governmental Organizations  
Were Not Performed**

A.I.D. policies and Federal Regulations require audit coverage of host country non-governmental organizations (NGOs). However, USAID/Zaire did not ensure that audits of the three indigenous NGOs in the audit sample were performed. This occurred because Mission officials did not follow A.I.D. guidelines relating to audit requirements and did not establish a tracking system to ensure that all required audits of USAID/Zaire's portfolio were identified and carried out. Consequently, USAID/Zaire did not have an independent and reliable assurance that funds provided to the three NGOs totalling \$3.9 million were used for intended purposes.

**Recommendation No. 3: We recommend that the Director, USAID/Zaire:**

- 3.1 earmark funds for audits and coordinate with the Office of the Regional Inspector General for Audit, Dakar, to schedule audits of agreements nos. CA-0116-S-00-6015 (A.I.D.R.Z.) and CA-660-0114 (United Methodist Church);**
- 3.2 establish a tracking system to ensure that all required audits are identified and carried out; and**
- 3.3 report internal control weaknesses, which resulted in required audits of indigenous organizations not being performed, to the Assistant Administrator in the Mission's next vulnerability assessment under the Federal Managers' Financial Integrity Act.**

A.I.D. Handbook 13, Chapter 4, requires that funds provided to non-U.S., nongovernmental grantees be audited annually by independent auditors. Also, OMB Circular No. A-73, titled Audit of Federal Operations and Programs, requires that Government Agencies provide audit coverage of their programs conducted in accordance with generally accepted government auditing standards. Finally, A.I.D. Contract Information Bulletin No. 90-12 requires contract and grant officers to request cognizant audit offices to conduct close-out audits of

all contracts and agreements exceeding \$500,000.

Missions are to ensure that funds provided to indigenous NGOs are audited periodically by (1) obtaining the audit reports if these NGOs have funded for their own audits or (2) requesting for financial audits to the cognizant A.I.D. audit office. Mission's project files and interviews with cognizant officials showed that audits of the following three indigenous NGOs had not been performed:

<u>Project Number</u>	<u>Indigenous NGO</u>	<u>Agreement Start Date</u>	<u>Disbursements as of 8/31/91</u>
660-0116	A.I.D.R.Z.	August 1986	\$1,070,540
660-0098	Society of Jesus	January 1988	425,112
660-0114	United Methodist	March 1985	2,378,201
		Total	<u>\$3,873,853</u>

As mentioned in the finding under the first audit objective on page 5, missions officials did not follow A.I.D. policy on assessing audit needs and budgeting funds for audits of these entities. Moreover, USAID/Zaire had not established an audit tracking system to identify and schedule required audits.

Consequently, the Mission did not have an independent and reliable assurance that funds provided to the three NGOs totalling \$3.9 million were used for the intended purposes.

Since the agreement with the Society of Jesus ended in June 1990 and was less than \$500,000, we do not believe an audit at this time would be beneficial. However, because the agreements with A.I.D.R.Z. and United Methodist Church are ending, we believe that USAID/Zaire should expeditiously earmark funds and request the cognizant audit office (RIG/A/Dakar) to contract for close-out audits of these two agreements. In addition, a tracking system needs to be established to ensure adequate audit coverage. Such a system should (1) identify various entities and contracts/agreements subject to audit for each project and (2) establish time-frames for requesting and scheduling the audits.

In March 1992, USAID/Zaire provided us documentary evidence that it had earmarked funds for close-out audits of the United Methodist Church and AIDRZ. Therefore, Recommendation No. 3.1 is considered resolved and can be closed upon completion of the audits.

USAID/Zaire Projects Tested  
Summary of Financial Status  
August 31, 1991

<u>Project Number</u>	<u>Project</u>	<u>Commitments</u>	<u>Disbursements</u>
660-0079	Area Nutrition Improvement	\$ 3,851,562	\$ 3,675,105
660-0101	School of Public Health	12,306,766	5,549,962
660-0107	Basic Rural Health II -Health	9,900,871	7,291,822
660-0107.1	Basic Rural Health II-Water	4,114,525	3,348,969
660-0114	Shaba Refugee Health	2,500,000	2,378,201
660-0116	Shaba Refugee Water Supply	2,196,714	1,885,948
660-0091	Applied Agr. Research & Outreach	14,743,771	13,642,435
660-0102	Area Food & Market Development	7,109,535	5,880,032
660-0105	Central Shaba Agr. Development	26,397,661	17,313,623
660-0119	Agricultural Policy & Planning	8,317,825	7,014,982
660-0098	Agricultural Marketing Development	9,128,777	7,318,204
660-0125	Small Project Support	9,622,230	1,607,390
	<b>TOTAL</b>	<b><u>\$110,190,237</u></b>	<b><u>\$76,906,673</u></b>

Source: USAID/Zaire's Mission Accounting and Control System - PO7C report entitled "Comprehensive Pipeline Report By Commitment Detail."

*Note 1: Above amounts are unaudited.*

*Note 2: The audit universe for these 12 projects comprised of commitments and disbursements totalling approximately \$65 million and \$38 million, respectively. The remaining \$46 million in commitments and \$39 million in disbursements were for various personal services contracts, commodities procured by the Mission, direct participant costs, and minor expenditures that did not warrant audits.*

<p style="text-align: center;"><b>MANAGEMENT COMMENTS AND OUR EVALUATION</b></p>
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The USAID/Zaire Director substantially disagreed with our draft report. He stated that the report was misleading and the audit findings speculative. His rationale was based on the fact that the conditions identified in our draft report related to situations that prevailed "six or seven years ago" when the current USAID/Zaire management team was not in place. Therefore, he believed that the auditors could not conclusively determine or confirm management deficiencies that occurred "six or seven years ago".

Moreover, although the Mission Director recognized that required audits were not done, he asserted that USAID/Zaire obtained reasonable assurance through other means such as monitoring, reporting and voucher examinations, that A.I.D. funds were used for their intended purposes.

Finally, the Mission Director believed that the auditors should drop their request for a representation letter because the audit field work could not be completed (due to civil and military turmoil in Zaire); an exit conference could not be held and a "final policy" by the Agency on representation letters had not yet been issued.

We do not concur with the above rationale. Our audit findings, conclusions and recommendations are based not on "speculations" or "conjectures", but upon examination of sufficient, competent and relevant documents as well as discussions with cognizant Mission officials. We also believe that while there are other means of verification, an independent audit is the most reliable control mechanism to assure A.I.D. management that Agency funds are used for their intended purposes. Also, our position on management representation letters is based not on any Agency policy, but on our professional obligation to comply with generally accepted government auditing standards which require such representations from the auditee.

Therefore, we have substantially retained our findings, conclusions and recommendations as written in the draft report. In certain instances, however, we have revised the draft to incorporate additional information provided by USAID/Zaire and to address the Mission's concerns about the extent of the responsibility of its current management team for past deficiencies identified in the audit report.

The full text of the USAID/Zaire Director's comments is included in pages 12 through 14 which follow.

ACTION: RIG INFO: EXEC

VZCZCDK0283  
 PP RUEHDK  
 DE RUEHC #0879/01 0740913  
 ZNR UUUUU ZZH  
 P 140912Z MAR 92  
 FM SECSTATE WASHDC  
 TO RUEHDK/AMEMBASSY DAKAR PRIORITY 4001  
 INFO RUFHDK/AMEMBASSY KINSHASA PRIORITY 8313  
 BT  
 UNCLAS SECTION 01 OF 02 STATE 080879

LOC: 310 126  
 14 MAR 92 0938  
 CN: 37210  
 CHRG: RIG  
 DIST: RIG

AIDAC RIG/A P. ARMSTRONG FROM USAID ZAIRE DIR. C. JOHNSON

E.O. 12356: N/A

TAGS:EAID

SUBJECT: USAID ZAIRE COMMENTS ON DRAFT AUDIT OF USAID  
 ZAIRE'S MANAGEMENT OF AUDIT REQUIREMENTS TO ACHIEVE  
 ACCOUNTABILITY FOR A.I.D. FUNDS

REFS: (A) STATE 036527 (B) REVISED SUBJECT DRAFT PER FAX  
 DTD 2/14/92

1. WE ARE DISAPPOINTED THAT THE "REVISED" DRAFT IS CHANGED VERY LITTLE AND DOES NOT REFLECT THE SUBSTANCE OF OUR COMMENTS SET FORTH IN REFTEL (A). ACCORDINGLY, WE DO NOT AGREE WITH THE DRAFT'S MAJOR FINDINGS AND RELATED CONCLUSIONS. HAD THE AUDIT FIELD WORK NOT BEEN ABORTED BY MILITARY INSURRECTION IN ZAIRE AND HAD THE AUDIT BEEN CONCLUDED IN THE NORMAL MANNER, SUBJECT DRAFT WOULD NOT CONTAIN MOST OF THE NEGATIVE FINDINGS.

2. GENERALLY, THE REPORT IS MISLEADING IN THAT IT DOES NOT CLEARLY DISTINGUISH BETWEEN USAID OFFICIALS OF SIX OR SEVEN YEARS AGO AND THE CURRENT MANAGEMENT TEAM. WE SUGGEST THAT THE ENTIRE DRAFT BE EDITED TO MAKE THIS DISTINCTION. WE REMIND RIG DAKAR THAT THE DIRECTOR AND CONTROLLER ARRIVED KINSHASA IN JUNE AND AUGUST, 1990 RESPECTIVELY.

3. SPECIFIC COMMENTS FOLLOW:

A. COVER SHEET: THE SUMMARY IS MISLEADING. THE FIRST SENTENCE SHOULD BE QUALIFIED TO SAY THAT THE AUDITORS WERE NOT ABLE TO DETERMINE WHETHER USAID ZAIRE IN 1985-86 ALWAYS ASSESSED THE NEED FOR AUDITS ETC. THE SECOND SENTENCE SHOULD BE EXPANDED TO STATE THAT THE ORGANIZATIONS HAD NOT BEEN AUDITED BY A.I.D. AT THE TIME OF THE AUDIT FIELD WORK; HOWEVER, USAID ZAIRE IS CONSIDERING CLOSEOUT AUDITS ON TWO OF THE THREE GRANTS TOTALING DOLLARS 3.6 MILLION. THE FINAL SENTENCE IS INACCURATE. THE ONLY POINT THE AUDIT CAN MAKE IS THAT THE AUDITORS WERE UNABLE TO DETERMINE IF USAID ASSESSED THE NEED FOR A PREAWARD SURVEY IN 1985-86.

- B. PAGES 5 AND 6. AUDIT FINDINGS ENTITLED "USAID ZAIRE DID NOT ALWAYS ASSESS THE NEED/BUDGET FUNDS FOR

AUDIT". THIS FINDING IS SPECULATION. PERHAPS THE AUDITORS DEDUCED THIS CONCLUSION FROM THE FACT THAT FUNDS HAD NOT BEEN BUDGETED FOR AUDITS COVERING TWO REFUGEE GRANTS TOTALING DOLLARS 3.6 MILLION MADE SIX AND SEVEN YEARS AGO? THE OTHER TWO ITEMS IN THE SAMPLE (A SMALL GRANT TO THE JESUITS AND A HOST COUNTRY CONTRACT) ARE NOT RELEVANT TO THE FINDINGS. NEITHER THE AUDIT CONCLUSION "THE MISSION DID NOT ASSESS THE NEED FOR AUDITS, ETC." NOR ITS CAUSE "THIS OCCURRED BECAUSE USAID ZAIRE OFFICIALS WERE NOT FAMILIAR WITH AUDIT REQUIREMENTS AND WERE NOT COGNIZANT OF THE DIFFERENCE BETWEEN EVALUATIONS AND AUDITS" IS SUPPORTABLE BY THE RECORD. WE DO NOT KNOW WHETHER ASSESSMENTS WERE MADE BY USAID OFFICIALS SIX OR SEVEN YEARS AGO AND NEITHER DO THE AUDITORS. SIMILARLY, THERE IS NO BASIS FOR THE ASSERTION THAT USAID OFFICIALS OF SIX AND SEVEN YEARS AGO WERE NOT FAMILIAR WITH AUDIT REQUIREMENTS AND DID NOT KNOW THE DIFFERENCE BETWEEN AN AUDIT AND AN EVALUATION. SUCH STATEMENTS ARE CONJECTURE

- C. PAGE SIX CAPTION "PREAWARD SURVEYS WERE NOT ALWAYS PERFORMED" IS MISLEADING. PREAWARD SURVEYS ARE ONLY REQUIRED WHEN A USAID IS UNABLE TO DETERMINE IF THE RECIPIENT'S ACCOUNTING AND FINANCIAL SYSTEM IS ADEQUATE. THERE IS NO WAY TO CONFIRM, BUT IT IS VERY POSSIBLE, THAT USAID OFFICIALS SIX OR SEVEN YEARS AGO MADE SUCH DETERMINATIONS THEREBY OBTAINING THE NEED FOR PREAWARD SURVEYS. THEREFORE, THE LAST SENTENCE OF THIS FINDING ON PAGE EIGHT, IS CONJECTURE.

- D. FINDING ENTITLED "REQUIRED AUDITS OF INDIGENOUS NON GOVERNMENTAL ORGANIZATIONS WERE NOT PERFORMED" (DPAW PAGES EIGHT TO TEN). THE FINDING IS INCOMPLETE AND

MISLEADING. GIVEN THE NATURE OF THE GRANTS IN QUESTION, THE NEED FOR, AND ANY ACTUAL AUDITS, WOULD BE DONE IN CONNECTION WITH GRANT CLOSE OUT PROCEDURES. CLOSE OUT PROCEDURES HAVE NOT BEEN COMPLETED ON ANY OF THE GRANTS AND THEREFORE THE AUDIT ISSUE HAS NOT YET BEEN ADDRESSED. REASONS CITED FOR NOT PERFORMING THE AUDITS ARE ALSO INCORRECT. THE CURRENTLY SERVING MISSION OFFICIALS ARE AWARE OF AUDIT REQUIREMENTS. THE LACK OF A TRACKING SYSTEM HAD NOTHING TO DO WITH THE FACT THAT THESE AUDITS HAD NOT BEEN PERFORMED AT THE TIME OF THE AUDIT FIELDWORK. WE DO NOT AGREE WITH THE STATEMENT ON PAGE TEN THAT "...USAID ZAIRE DID NOT HAVE REASONABLE ASSURANCE THAT FUNDS PROVIDED TO THE THREE NGO'S TOTALLING DOLLARS 3.9 MILLION WERE USED FOR THE INTENDED PURPOSES." ON THE CONTRARY, PROJECT MONITORING, REPORTING AND VOUCHER EXAMINATION GAVE USAID REASONABLE ASSURANCE THAT FUNDS

WERE USED FOR INTENDED PURPOSES.

4. SINCE TRANSMITTAL OF REFTTEL (A) THE USAID ZAIRE PROOF WINDUP PLAN HAS BEEN COMPLETED. THE PROGRAM IS BEING TERMINATED AND THERE IS NO HINT WHEN CONDITIONS IN ZAIRE MIGHT PERMIT A NEW PROGRAM. IT COULD BE YEARS. THEREFORE, WE SEE NO USEFUL PURPOSE IN SUSPENDING THE AUDIT RECOMMENDATIONS UNTIL SUCH TIME AS THE A.I.D. PROGRAM RESUMES.

5. THE DRAFT CONTAINS A NUMBER OF SECTIONS WHERE NEGATIVE STATEMENTS ARE MADE SINCE WE (THE CONTROLLER AND I) HAVE NOT SIGNED A REPRESENTATION LETTER. WE SUGGEST THERE ARE STRONG REASONS FOR DROPPING YOUR REQUEST FOR A REPRESENTATION LETTER IN THIS PARTICULAR CASE. AS PREVIOUSLY STATED IN PARA 4 OF REFTTEL (A), THESE REASONS INCLUDE: (1) THE AUDITORS INABILITY TO COMPLETE THE AUDIT FIELDWORK; (2) FAILURE TO HOLD AN EXIT CONFERENCE; (3) LACK OF OPPORTUNITY TO DISCUSS AND AGREE UPON A LETTER WHICH DIRECTLY RELATES TO THE STATED AUDIT OBJECTIVES; AND (4) LACK OF FINAL AGENCY POLICY ON SUCH LETTERS.

6. NOTWITHSTANDING THESE STRONG REASONS FOR NOT DOING A REPRESENTATION LETTER, THE CONTROLLER AND I ARE PREPARED TO SIGN THE FOLLOWING REPRESENTATION:

QUOTE WE PROVIDED, TO THE BEST OF OUR KNOWLEDGE, THE IG AUDIT TEAM WITH ALL OF THE INFORMATION REQUESTED AND AVAILABLE TO US UNTIL SEPTEMBER 23, 1991, THE DATE OF MILITARY INSURRECTION IN KINSHASA. WE ARE UNAWARE OF ANY ADDITIONAL INFORMATION WHICH MAY BE RELATED TO THE ACCOMPLISHMENT OF THE AUDIT OBJECTIVES. GIVEN THAT THE AUDIT FINDINGS RELATE TO USAID ACTIONS WHICH OCCURRED SIX

TO SEVEN YEARS AGO, WE STRESS THAT OUR REPRESENTATION DOES NOT ADDRESS ACTIONS TAKEN THEN, EVEN THOUGH WE HAVE NO REASON TO BELIEVE THAT ANY RELEVANT INFORMATION HAS BEEN WITHHELD. UNQUOTE

7. PLEASE ADVISE WHETHER RIG STILL WANTS A REPRESENTATION LETTER IN THIS UNUSUAL CASE. IF SO, PLEASE ADVISE WHETHER OUR PLAIN ENGLISH TEXT IS ACCEPTABLE. IF SO, WE WILL PUT IT ON LETTERHEAD AND FAX TO RIG DAKAR.

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## SCOPE AND METHODOLOGY

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### Scope

We performed the Audit of USAID/Zaire's Management of Audit Requirements to Achieve Accountability for A.I.D. Funds in accordance with generally accepted government auditing standards, except that USAID/Zaire's management would not provide us with a representation letter (even though we requested it) confirming information essential to fully answer the audit objectives. Management's refusal to make such representations constitutes a limitation to the scope of the audit. The information that USAID/Zaire managers would not confirm to the best of their knowledge and belief follows:

- whether they are responsible for the internal control system, compliance with applicable laws and regulations, and the fairness and accuracy of accounting and management information for the organization under the audit;
- whether they have provided us with all the financial and management information associated with the activity or function under audit;
- whether they know of any irregularities in the activity;
- whether they know of any material instances where financial or management information have not been properly and accurately recorded and reported;
- whether they are aware of any instances of noncompliance with A.I.D. policies and procedures or violations of laws and regulations;
- whether they have complied with contractual agreements; and
- whether they know of any events subsequent to the period under audit that could affect the above representations.

The answers to the above types of questions are so fundamental to the basic concepts of auditing that it is not possible to render a positive opinion without them. Thus, if managers will not answer these basic questions and will not confirm their answers in writing through a representation letter, then we cannot risk giving a positive opinion.

## Appendix II

While we cannot make a positive conclusion without such representations, this lack of a management confirmation does not preclude us from reporting on any problem areas that came to our attention and we have done so.

We conducted the audit from September 2 to November 30, 1991, and covered the systems and procedures relating to USAID/Zaire management of audit requirements. We conducted our field work in the offices of USAID/Zaire at Kinshasa, Zaire.

Our audit covered 12 of 36 USAID/Zaire's active projects as of September 30, 1990. These 12 projects were judgementally selected and had commitments of \$110 million and disbursements of \$77 million as of August 31, 1991 (Exhibit 1), according to USAID/Zaire's Mission Accounting and Control System - P07C report entitled "Comprehensive Pipeline Report By Commitment Detail." These 12 projects represented 70% of total commitments and 74% of total disbursements for the 36 active projects as of September 30, 1990. The amounts in Exhibit I are unaudited. However, this data was used primarily to determine the impact of noncompliance with audit requirements in various USAID/Zaire projects.

The audit fieldwork was scheduled from September 9 through 27, 1991. However, due to outbreak of civil and military disturbances in Kinshasa, Zaire, during the last week of fieldwork, the auditors had to leave Zaire. As a result, sufficient audit work could not be done to answer the fourth audit objective (see page 3).

In answering the first three objectives, we obtained documentary and testimonial evidence from USAID/Zaire; assessed internal controls related to each audit objective; and verified evidence through examination of supporting documentation. Following is a discussion of our methodology for answering each audit objective.

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### Methodology

#### Audit Objective One

The first objective was to determine whether USAID/Zaire complied with A.I.D. policies that require assessing audit needs in project papers and budgeting funds for audits.

We examined project papers for the 12 projects in the audit sample to determine whether assessments of the need for audits were included in the project papers.

We reviewed project, contract and cooperative agreements and Comprehensive Pipeline Report By Commitment Detail reports for each of the 12 projects to determine which non-governmental organizations or governmental entities were receiving project funds. With this information, we identified the organizations that had a requirement for audit and should have budgeted funds for audits in the project agreement. Organizations requiring a budget for audits include (1) host governments which do not arrange for audits of A.I.D. funds and (2)

host country NGOs or contractors which do not provide for audits of A.I.D. funds received.

We reviewed project agreements, individual agreements and contracts with recipient organizations for each of the 12 projects in the audit sample and determined whether those needing audit coverage had budgeted project funds for these audits.

We interviewed Mission officials who are responsible for ensuring that project papers include assessments of audit need and that project budgets provide funds for audits accordingly.

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### **Audit Objective Two**

The second objective was to determine whether USAID/Zaire complied with A.I.D. Handbook guidance for including audit requirements in its project agreements, cooperative agreements, and contracts.

We reviewed all 21 agreements and contracts that received funds under the 12 projects in the audit sample and determined whether they included standard provisions regarding audit requirements that were in effect at the time the document was executed. USAID/Zaire has also entered into "buy-in" agreements or contracts, which were not included in our sample because audit responsibility for these are with A.I.D./Washington.

We also interviewed USAID/Zaire personnel who are responsible for preparing these agreements and ensuring compliance with A.I.D. requirements.

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### **Audit Objective Three**

The third objective was to determine whether USAID/Zaire complied with A.I.D. Handbook policies and applicable Federal regulations to ensure required audits are performed and meet U.S. Government auditing standards and that preaward surveys are conducted when required.

We interviewed the USAID/Zaire Controller and cognizant project officials to determine whether an audit tracking system was in place, required audits were requested and performed in accordance with generally accepted Government audit standards; and whether preaward surveys were conducted when required.

To determine whether USAID/Zaire complied with OMB Circular A-73 and OMB A-133, we reviewed the 12 projects in our sample for adequate audit coverage. Audit coverage was considered adequate if the organization(s) implementing the projects were (1) U.S. based NGOs which were audited by independent public accountants in the U.S. as mandated by OMB Circular A-133; (2) U.S.-based contractors who were subject to audit in the U.S.; (3) host country NGOs or contractors which were audited annually by independent auditors in the host country or (4) host country NGOs or contractors which were audited by non-Federal

**auditors under OIG supervision through USAID/Zaire-funded audits.**

**Finally, we reviewed financial documentation, and interviewed personnel in USAID/Zaire's Controller and Project Offices to determine whether preaward surveys were performed when required.**

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## **REPORT ON INTERNAL CONTROLS**

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### **Scope**

We conducted our audit in accordance with generally accepted government auditing standards, except that USAID/Zaire's management would not provide us with a representation letter confirming, among other things, its responsibility for the internal controls related to the audit objectives or confirming whether or not there were any instances of noncompliance with A.I.D. policies and procedures or whether or not it had provided us with all the information related to this program.

Management's refusal to make such representations, constitutes a limitation to the scope of the audit and is sufficient to preclude an unqualified opinion on the reliability of the internal controls related to the audit objectives. (A complete description of the representations that USAID/Zaire would not make is provided in the Scope and Methodology section in Appendix II of this report).

We limited our assessment to those internal controls applicable to the three audit objectives and therefore did not assess USAID/Zaire's overall internal control structure.

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

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### **Background**

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget's implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls. The objectives of internal controls and procedures for U.S. Government 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. 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.

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### **Conclusions for Audit Objective One**

This objective concerns whether project papers include assessments of the need for audits and whether project agreements budget funds for audits when required. We considered the applicable internal control policies and procedures cited in A.I.D. Policy Verification Statement No. 6 and the General Accounting Office "Standards for Internal Controls in the Federal Government."

We have classified the relevant policies and procedures into one category: project planning and budgeting process. We reviewed USAID/Zaire's controls relating to the project planning and budgeting process. Our assessment showed that the controls were unreliable because the Mission lacked written guidelines on how to assess the need for audits in project papers and when funds for audits should be included in project budgets. The Mission did not disclose this weakness in its 1990 General Assessment required under the Federal Managers' Financial Integrity Act.

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### **Conclusions for Audit Objective Two**

We reviewed the Agency's internal controls relating to this objective. We are not, however, able to conclude on the reliability of these controls, as management was not willing or able to confirm in a representation letter essential information related to these controls.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this audit objective are effective and can be relied on. However, based on the information provided by USAID/Zaire and tests performed, we can only report that no significant internal controls weaknesses came to our attention, other than USAID/Zaire's inability to confirm in writing essential information about its own internal controls.

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### **Conclusions for Audit Objective Three**

This audit objective relates to whether required audits and preaward surveys are performed. We considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 13 and the General Accounting Office "Standards for Internal Controls in

the Federal Government."

We have classified the relevant policies and procedures into two categories: program audit process and preaward survey process.

We reviewed USAID/Zaire's internal controls relating to the project audit process and required audits and preaward survey process and our assessment showed that the controls were unreliable because the Mission did not (1) establish a tracking system to ensure required audits of indigenous organizations receiving A.I.D. funds were performed and (2) have written guidelines on when preaward surveys are to be performed. The Mission did not disclose these weaknesses in its 1990 General Assessment required under the Federal Managers' Financial Integrity Act.

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# REPORT ON COMPLIANCE

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## Scope

We conducted our audit in accordance with generally accepted government auditing standards, except that USAID/Zaire's management would not provide us with a representation letter confirming to the best of their knowledge and belief (1) their responsibility for compliance with applicable laws and regulations, (2) whether or not there were any irregularities involving management or employees, (3) whether or not there were any instances of violations or possible violations of laws and regulations. (A complete description of the representations that USAID/Zaire would not make is provided in the Scope and Methodology section in Appendix II of this report).

Management's refusal to make such representations, constitutes a limitation on the scope of the audit and is sufficient to preclude us from designing our audit to provide reasonable assurance of detecting abuse and illegal acts and from giving an unqualified opinion on compliance with Office of Management and Budget (OMB) Circulars A-73 and A-133.

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## Background

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants 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 of noncompliance 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 laws and regulations but nevertheless violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with OMB Circular Nos. A-73 and A-133 is the overall responsibility of USAID/Zaire's management.

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## **Conclusions on Compliance**

We reviewed USAID/Zaire's compliance with OMB Circulars A-73 and A-133. However, as management was not willing or able to confirm in a representation letter essential information related to such compliance, we cannot therefore state positively that USAID/Zaire has complied with the above laws and regulations. However, based on the information provided by USAID/Zaire and tests performed, the Mission did not provide adequate audit coverage of A.I.D. funds given to indigenous organizations (see page 8). Other than the above, we can only report that no irregularities or instances of violations of such applicable laws and regulations came to our attention.

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