

**Regional Inspector General for Audit
Dakar**

**AUDIT ON THE STATUS OF REDSO/WCA'S
IMPLEMENTATION OF THE AUDIT MANAGEMENT
AND RESOLUTION PROGRAM**

**Audit Report No. 7-624-94-010
July 22, 1994**



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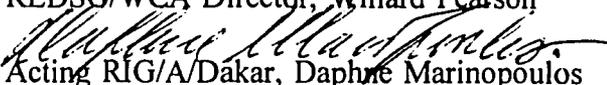
UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

July 22, 1994

MEMORANDUM

TO: REDSO/WCA Director, Willard Pearson
FROM: 
Acting RIG/A/Dakar, Daphne Marinopoulos
SUBJECT: Audit on the Status of REDSO/WCA's Implementation of the Audit Management and Resolution Program

This memorandum is our report on the audit of REDSO/WCA's implementation of the Audit Management and Resolution Program. We considered your comments on the draft report in finalizing this report and have included them in Appendix II. The report contains no recommendations.

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

Background

In the last few years, USAID management has taken a more active and assertive role in using auditing as a means to improve and ensure financial accountability for its programs. Towards this end, USAID amended its standard audit provisions for grant agreements. The Agency also established the Audit Management and Resolution Program (AMRP) to oversee its financial audit program. This management effort is important to USAID because accountability is dependent upon verification of the proper use of funds provided to grantees and contractors within developing countries. When audits required by this program are not performed, accountability cannot be reasonably assured.

Ensuring accountability is a fundamental aspect of USAID's development strategy to strengthen the democratic process in developing countries, including the countries in West and Central Africa. USAID's audit requirements make recipients accountable for the development money USAID gives them. This is considered to be an integral part of the Agency's development strategy. Accountability also promotes responsible management and acts to inspire public confidence in leaders and institutions.

The new audit provisions require annual audits of USAID grant recipients who receive \$25,000 or more. These new provisions went into effect on May 17, 1991, for foreign Non-Governmental Organizations (NGOs), and on May 1, 1992, for grant agreements with foreign governments. However, the audit threshold for grants to foreign NGOs was increased from \$25,000 to \$100,000 as of March 8, 1994. The AMRP was issued as a USAID General Notice on April 3, 1992. It establishes a framework for USAID's audit management. It also assigns specific responsibilities to overseas missions regarding the fulfillment of the new audit requirements and the implementation of the foreign recipient-contracted audit program.

The implementation of recipient-contracted audit programs in West and Central Africa has been a slow process. In the meantime, missions have met their auditing needs through Agency-contracted audits. This was necessary because the majority of indigenous recipients of USAID funds are government agencies without either the legal authority or experience to contract directly for audits. This fact coupled with the limited number of qualified auditing firms has led USAID missions in the region to request the Regional Inspector General to coordinate Agency-contracted audits. With the experience gained by audit firms and foreign governmental recipients over the past two years, these missions are now moving towards audit programs which are either recipient-contracted or Agency-contracted on behalf of foreign governmental recipients.

The Regional Economic Development Services Office for West and Central Africa (REDSO/WCA) provides various recipient audit management services for itself and its non-controller client posts which include Burkina Faso, Cape Verde, Guinea Bissau, Cote d'Ivoire, Liberia, Mauritania, Sierre Leone, Togo and Sao Tome & Principe. To support the Agency's implementation of AMRP, the Inspector General's Office of Audit is conducting a series of reviews designed to provide status reports to USAID/Washington on the progress of the program. Our review of REDSO/WCA is an important part of this worldwide effort.

Information Objective

The review was initiated to answer the following question:

Has REDSO/WCA obtained the needed audit coverage of its grantees and contractors in order to verify that USAID funds are used for their intended purposes as required by USAID handbooks as well as the Audit Management and Resolution Program?

Appendix I contains a complete discussion of the scope and methodology for this review.

Audit Finding

REDSO/WCA has obtained the needed audit coverage of its recipients and taken several steps to implement the Audit Management and Resolution Program. At the time of the audit, REDSO/WCA's recipient audit program primarily consisted of Agency-contracted audits monitored by the Regional Inspector General, which provided the required audit coverage. However, while REDSO/WCA did receive the one recipient-contracted audit due by March 1, 1994, the report did not follow relevant standards.

We found that, in accordance with the AMRP, REDSO/WCA (1) established a Management Control Review Committee made up of the Deputy Director (Chairman), Controller, and the Assistant Directors of each office (2) designated the Supervisory Financial Analyst as its Audit Management Officer and (3) established AMRP policy guidelines.

Additionally, REDSO/WCA established an automated database of both U.S. and non-U.S. recipient organizations. It has also submitted annual audit management plans for fiscal years 1993 and 1994. The first database was prepared in 1992. According to the financial analyst, this first database was derived from a Commitment Report from the Mission Accounting and Control System detailing all grants and contracts in excess of \$25,000 that had been made from October 1, 1990 through September 30, 1992. He reviewed this report and classified the commitments as being associated with either U.S. or non-U.S. organizations. He then reviewed each agreement to determine whether or not it was subject to audit, and whether it should be included in the audit inventory. Before finalizing the initial audit inventory, the analyst forwarded it to project officers to verify that all recipients had been included. This initial audit inventory database was updated in June 1993, and was in the process of being updated again during our audit fieldwork.

REDSO/WCA prepares audit inventories for USAID awards over \$25,000 to U.S. and non-U.S. organizations for both itself and its non-controller client missions. However, it only prepares and implements audit management plans for itself and Cote d'Ivoire. REDSO/WCA provides the remaining non-controller client missions with copies of the inventories. Non-controller client missions are supposed to prepare and submit annual audit management plans from the inventories provided by REDSO/WCA to the Regional Inspector General.

As of June 1993, REDSO/WCA was responsible for implementing audit management plans comprised of 46 commitments amounting to \$19.9 million. These plans contained the information required by AMRP; i.e., recipient name, organization type, agreement number, project number, amount, commitment start and end dates, audit period and audit completion date. The audit inventory indicated that REDSO/WCA had one recipient-contracted audit which was due by March 1, 1994.

Maintenance of the audit inventory and monitoring of the audit implementation plan is primarily carried out by a financial analyst who enters grant and contract awards into the recipient audit tracking system. He reviews the inventory database quarterly to track the status of required audits. In addition, he coordinates with project officers to ensure that all recipients are included in the inventory.

As noted earlier, REDSO/WCA has issued policy guidelines on audit management and resolution. These guidelines, in the form of a mission order, essentially restate the requirements set out in the AMRP general notice. The mission order does not, however, include procedures for monitoring recipient-contracted audits. The lack of such specific procedures is a weakness. This lapse caused one recipient-contracted audit due by March 1, 1994, to be at variance with applicable standards. This issue is discussed in detail below.

**REDSO/WCA Should Establish
Specific Procedures for
Monitoring Recipient-Contracted Audits**

According to the AMRP, USAID missions should obtain audits from recipients and review them to ensure the financial accountability of their programs. Financial accountability of programs is ensured when missions can verify, through independent audits, that grantees and contractors have used USAID funds according to agreement provisions. *USAID Handbook 13* requires audits to be performed on foreign NGOs receiving more than \$25,000 per year, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the *Guidelines for Financial Audits Contracted by Foreign Recipients* (hereafter referred to as *Guidelines*) issued by the USAID Office of the Inspector General (OIG). The OIG further requires that contracts for audit services between recipients and independent auditors contain standard "scope of works" approved by USAID.

REDSO/WCA obtained one recipient-contracted audit report as of March 1, 1994 which was provided by a foreign NGO. However, this audit report did not follow applicable standards. For example, even though the agreement contained the standard audit provision for Handbook 13 grants, the audit was not done in accordance with the OIG *Guidelines* or *Government Auditing Standards*.

The audit did not follow relevant audit standards because the grantee did not include these requirements in its contract for audit services, and REDSO/WCA did not review and approve the audit contract. As a result, the audit did not verify whether the USAID grant was used for its intended purposes. However, REDSO/WCA has obliged the recipient to contract for another audit which will provide the audit coverage needed. The contract for this additional audit contains a standard scope of work that was approved by

REDSO/WCA. The audit is being monitored closely by REDSO/WCA to ensure that all applicable standards are followed.

We are not making any recommendations because the AMRP is a relatively new program, and our audit is primarily a status report for use by USAID/Washington and the OIG in determining the progress of the program. In addition, REDSO/WCA said that it would initiate procedures suggested by the audit team. These include updating its mission order concerning AMRP to include specific steps to be followed by project officers in monitoring recipient-contracted audits.

Management Comments and Our Evaluation

In response to the draft audit report, REDSO/WCA acknowledged that specific procedures do not exist at the mission level regarding the implementation of recipient-contracted audits. REDSO/WCA further stated that it will take action to revise the audit management and resolution mission order. This revision would include specific steps to be followed by project officers in monitoring recipient-contracted audits.

The entire text of the Mission's comments are included as Appendix II.

<p style="text-align: center;">SCOPE AND METHODOLOGY</p>

Scope

We audited REDSO/WCA's implementation of the Audit Management and Resolution Program in accordance with generally accepted government auditing standards.

As of June 1993, REDSO/WCA's audit inventory contained 46 active, new and amended grants or cooperative agreements of \$25,000 or more going to foreign recipients. Total grant funding amounted to \$19.8 million.

We used a questionnaire to assess whether REDSO/WCA had generally met its responsibilities under AMRP requirements. For example, we determined whether REDSO/WCA: included standard audit provisions in grants, cooperative agreements and contracts over which it had monitoring responsibility; developed and maintained an up-to-date audit inventory database system to ensure that required audits were performed; and obtained the required audits. REDSO/WCA's responses to our questionnaire were not verified by audit tests, with two exceptions: (1) the validity of the audit inventory, and (2) receipt and quality of audit reports. Limited audit tests were performed to verify this information because we believed the accuracy of REDSO/WCA's audit inventory, and whether audits were being performed as required, were the two most important indicators of the program's progress.

We conducted our field work at REDSO/WCA in Abidjan, Cote d'Ivoire. Our field work began on April 14, 1994 and concluded on April 21, 1994.

Methodology

In addition to the specific methodology for the information objective discussed below, we:

- 1) Reviewed REDSO/WCA's fiscal year 1993 Internal Control Assessment to determine whether it disclosed any material weaknesses in the implementation of the AMRP, and;
- 2) Obtained a management representation letter for all essential assertions relating to the information objective.

We did not verify the reliability of the computer-generated data used to establish the Mission's recipient audit inventory because of the inordinate amount of time necessary to accomplish this task.

To answer the information objective, we obtained written answers to our questionnaire from REDSO/WCA. We reviewed the answers and checked any that appeared incorrect based on our knowledge, or inconsistent with other information provided in the questionnaire. We performed audit tests to verify the answers given to the following questions:

- "Does the audit inventory database include all direct grants, cooperative agreements, and contracts with foreign recipients for which the Mission has monitoring responsibility?" and
- "How many recipient audit reports were due by March 1, 1994, and how many reports were received that met the recipient audit requirements?"

We determined whether the recipient audits due (within 13 months after the end of the grantees' fiscal years) had been completed, received by REDSO/WCA, and were processed in accordance with audit provisions and guidelines.

We interviewed the REDSO/WCA controller, the financial analyst responsible for managing the recipient audit program, project officers, and contracting officers in order to answer the information objective, and to determine why one recipient-contracted audit report did not meet required audit standards.

MEMORANDUM

Date: July 1, 1994

From: Kimberly A. Finan, Acting Director *25 Finan*

RE: Audit of the Status of REDSO/WCA's Implementation of the Audit Management and Resolution Program

To: Thomas B. Anklewich, RIG/A/Dakar

Reference: Anklewich/Pearson Memorandum dated June 3, 1994

We have reviewed the draft audit report of the Status of REDSO/WCA's Implementation of the Audit Management and Resolution Program dated June 3, 1994. We appreciate the input and advice provided by the RIG audit team during the course of the audit. Our comments provided below are intended to respond to the team's finding.

.....

REDSO/WCA Should Establish Specific Procedures for Monitoring Recipient-Contracted Audits

REDSO/WCA acknowledges that specific procedures do not exist at the mission level with regard to the implementation of recipient-contracted audits. The REDSO/WCA mission order on audit management and resolution focuses on developing an audit inventory, executing an audit management plan, and following up on resulting audit recommendations. Most of the audits REDSO/WCA has implemented under its audit plans have been Agency-contracted audits which involve the Office of the Regional Inspector General in the process. REDSO/WCA's first experience with a recipient-contracted audit was faulted due to a lack of understanding of how involved mission managers should be in the recipient's contracting process. We believe we have been more successful in monitoring the execution of another audit of the same organization.

REDSO/WCA will take action to revise the audit management and resolution mission order to include specific steps to be followed by project officers in monitoring recipient-contracted audits. The mission order revision will also include the increase of the audit threshold for non-U.S. NGOs from \$25,000 to \$100,000 and a discussion of non-federal audits contracted by USAID on behalf of foreign governmental recipients.

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