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AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL

UNDERSTANDING
AUDIT IN A.I.D.



Assistant Inspector General for Audit

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FOREWORD

This pamphlet explains the process we call audit in A.I.D. It describes how programs, projects and functions are selected for audit; how audits are done; how the audit reporting process works and how audit recommendations are processed. The Office of Management and Budget requires audit to be an integral part of the management process and be responsive to the needs of management. A healthy audit program promotes good program, administrative and financial management and is critical to ensuring integrity in foreign assistance programs. The end result of the audit process, the audit report, is a joint product of both A.I.D. employees and auditors.

Herbert L. Beckington
Inspector General

Background

The International Security and Development Cooperation Act of 1981 established the A.I.D. Inspector General under the purview of the Inspector General Act of 1978. Under the provisions of the 1978 Act, the Inspector General has broad duties and responsibilities for auditing A.I.D.'s programs and operations throughout the world.

Selection of Audits

Each fiscal year the Inspector General's Office of Audit develops an audit plan by soliciting audit proposals from senior A.I.D. management in Washington, D.C., Missions and support offices in the field and IG Headquarters and regional audit offices. These proposals are reviewed and evaluated by the Inspector General's Planning Committee. The Committee is comprised of the Inspector General, Assistant Inspector General for Audit and senior members of the audit staff in Headquarters and regional audit offices. The Committee approves audit plan proposals that contain clear audit objectives and demonstrate the audit work will result in significant benefits to A.I.D.

Types of Audits

The Office of Audit conducts three types of audits: Internal audits, Automated Data Processing (ADP) audits and External audits.

Internal Audits—Internal audits review the programs, projects, operations and administrative processes of the Agency to determine whether (1) they are being carried out in accordance with applicable laws, regulations and sound accounting procedures; (2) they are being administered efficiently and economically; with adequate internal controls in place and (3) they are achieving the desired results.

Automated Data Processing (ADP) Audits—ADP audits review the Agency's data processing systems and operations to assess the validity of requirements; adequacy of systems designs; costs control; procurement; extent to which user results will be met; security of program, equipment and installation; and adequacy of system documentation.

External Audits—External audits review the Agency's contracts and grants to determine the adequacy of accounting and internal controls; allowability of costs; and compliance with laws, regulations and terms of the award. Usually other federal agencies, such as the Defense Contract Audit Agency; or non-Federal audit firms under contract, make these audits.

The Audit Process

The audit process described in this pamphlet applies to internal and ADP audits. The audit process is designed to maintain an open channel of communication between the auditors and management officials. A full dialogue between the auditors and management is important to ensure the audit findings are accurate and fairly presented when the final report is issued.

Audit Notification

IG policy requires each audit office to notify A.I.D. offices or missions in writing or by cable of the date an audit is scheduled to start. This notification is provided at least 30 days, or longer if possible, prior to the start of the audit.

The Entrance Conference

At the beginning of each audit, the auditors hold a formal entrance conference with the A.I.D. management officials responsible for the function or activity being reviewed. The auditors explain the purpose and scope of the audit and ask for management's suggestions on additional areas to include in the audit. Specific arrangements are made at the conference for the auditors to have access to appropriate records, information and personnel. Normally, management designates a convenient working area for the audit staff and an audit liaison official for audit matters.

Performing Internal Audits

Survey—The auditors make audit surveys to obtain background information on a program, activity or function and to assess whether there are areas where management improvements are needed. Based on the results of the survey, the auditors decide if additional audit work is warranted. If additional work is not warranted, the auditors provide Agency management a memorandum summarizing the survey results. If additional work is warranted, the auditors will proceed with a more detailed examination.

Detailed Examination/Verification—The detailed examination or audit verification phase of an internal audit is normally a comprehensive review of selected areas of a program, activity or function. The auditors use an audit program developed specifically to examine problems identified during the survey. The detailed verification can be performed by auditors from the IG's Headquarters offices, one of the regional offices or a combination of offices as a coordinated effort.

Headquarters Audits—The IG's Headquarters audit offices generally perform audits involving broad issues, policies or functions cutting across A.I.D. internal organizational lines. In performing the audits, site visits are made worldwide, if needed. Audit reports contain recommendations with worldwide implications and are issued to the Headquarters/Bureau-level officials who are responsible for recommended corrective actions.

Regional Audits—The regional audit offices generally perform audits of specific country projects, programs or procedures. Reports on these audits contain recommendations addressed to mission or field office management. Occasionally, the regional audit offices will pursue policy issues requiring audit work in other regions and at Headquarters offices.

Coordinated Audits—A coordinated audit is a joint effort of the IG's Headquarters and regional offices. The IG schedules these audits when there is a potential for major audit recommendations at both Agency and mission levels. The IG issues the report covering the overall effort to the appropriate A.I.D. Headquarters/Bureau office. The IG also issues reports to field organizations covering local deficiencies if necessary.

Keeping Management Informed

During the audit, the IG's staff keeps management advised of findings as they are developed. The IG's staff communicates in the following ways.

Discussions/Interviews—The auditors discuss potential findings during field work and hold interviews with A.I.D. project or program officials. The discussions and interviews serve two purposes. First, they provide an opportunity for the auditors to clearly understand the facts and circumstances surrounding the audit and to correct misunderstandings and inaccuracies. Second, they provide early notice of deficiencies so management can take immediate corrective action, when possible.

Briefings—During the audit, when important issues arise, the auditors may schedule formal briefings with management. The significance of the issues determines the level of management asked to participate.

Management Advisory Memorandum—Occasionally, before the completion of the review, the auditors prepare an advisory memorandum to alert upper Agency management of significant deficiencies. This is done when immediate corrective action is needed to prevent mismanagement of funds and/or violations of laws or regulations and to inform top management about sensitive matters.

Draft Findings—Before the exit conference, the auditors provide management officials with discussion copies of the findings and recommendations (RAFTs) that will be included in the draft audit report. Management should be aware of these issues from earlier discussions or meetings with IG staff. Management should review these discussion drafts carefully so they can be productively discussed at the exit conference.

The Exit Conference—The auditors hold an exit conference to formally advise management of the audit results and to obtain management's comments to proposed findings and recommendations. Management's input is important to ensure that the audit results are fairly presented; audit recommendations are reasonable and actionable, and any errors or misrepresentations can be corrected.

The Audit Report

Draft Report—After considering management's comments at the exit conference, the auditors amend the draft audit findings and recommendations, as necessary. A draft audit report is then issued to the appropriate A.I.D. management official, with a request that management provide written comment within 30 days on the facts, conclusions and each recommendation presented in the report. If management or the auditors feel additional discussions are needed on the draft report, an additional meeting can be held to discuss the issues at hand or to resolve differences.

Final Report—After the IG receives management's written comments on the draft report, the IG issues the final audit report. The report includes management's written comments in total to ensure the Agency's viewpoint is fully represented. If the IG disagrees with any of the comments, the IG explains the reasons in the

report. The IG wants the final audit report to provide a fair, complete and accurate picture of the specific area audited at the time of the audit.

Response to Final Audit Report—For most audits, management and the auditors should reach agreement on audit recommendations by the time the final report is issued. Audit recommendations are considered resolved when management and the auditors agree on the required corrective actions. After the agreed upon corrective actions have been completed, the recommendations are considered closed. The final report and report transmittal identify the status of the audit recommendations. In some cases the auditors may just need a more detailed management response on the planned corrective actions. The IG then requests that management provide a detailed response within 30 days of the final report date. If management continues to disagree with the reported findings, management should clearly state the reasons in the 30-day response and provide evidence to support its position. Any proposed alternatives to audit recommendations should include an action plan and an anticipated completion date.

Status of Recommendations—The IG classifies audit recommendations as open or closed. Open recommendations are further classified as resolved or unresolved. An unresolved open recommendation is a recommendation where the Agency action official and the IG cannot agree on the corrective actions to be taken. A resolved open recommendation is a recommendation where the Agency action official and the IG agree on corrective action, but the action has not been completed.

Audit Resolution—OMB Circular A-50 requires each Agency to regularly evaluate its performance in complying with audit recommendations. Every agency must establish a follow-up system to ensure prompt and proper resolution of audit recommendations, including the documented assessment of the effectiveness of corrective action.

The IG formally tracks audit recommendations until management completes recommended corrective measures. The IG considers recommendations open until corrective action has been completed. When recommendations cannot be resolved and closed through

discussions with senior Agency management within each Bureau, final resolution is made by the Deputy Administrator.

Conclusion—With this pamphlet we have provided general information as to why and how we do internal audits. We are available to furnish any additional information you may need to ensure that future audits go smoothly. If you have any questions, please call our Headquarters Office or the Regional Inspectors General for Audit in your area.

Headquarters:

Assistant Inspector General for Audit
21st and Virginia Ave., N.W.
Room 5644, New State Building
Washington, D.C. 20523-0060
Telephone: (202) 647-7845

Regional Inspectors General for Audit are located in Honduras, Egypt, Senegal, Kenya, Singapore and the Philippines.

Inspector General Hotline

If you are aware of any fraud, waste, or mismanagement, please contact the A.I.D. Inspector General Hotline.

- Information is confidential.
- Caller can be anonymous.

The Hotline telephone number is:

(703) 875-4999

The Hotline mailing address is:

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