

**Regional Inspector General for Audit  
Dakar**

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**AUDIT ON THE STATUS OF USAID/GHANA'S IMPLEMENTATION  
OF THE AUDIT MANAGEMENT  
AND RESOLUTION PROGRAM**

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**Audit Report No. 7-641-94-012  
September 20, 1994**



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of the Audit Management and Resolution Program**

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September 20, 1994

## MEMORANDUM

**TO:** USAID/Ghana Director, Barbara Sandoval  
*Thomas B. Anklewich*  
**FROM:** RIG/A/Dakar, Thomas B. Anklewich  
**SUBJECT:** Audit on the Status of USAID/Ghana's Implementation of the Audit Management and Resolution Program

This memorandum is our report on the audit of USAID/Ghana'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.

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### Background

In the last few years, USAID management has taken a more active and assertive role in using audit as a means to improve and ensure the financial accountability of 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.

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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 and assigns specific responsibilities to overseas missions for responding to the new audit requirements and for implementing 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 this 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.

To support the Agency's implementation of the 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 at USAID/Ghana is an important part of this worldwide effort.

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## **Information Objective**

This review was designed to answer the following question:

Has USAID/Ghana 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.

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## **Audit Finding**

USAID/Ghana has obtained the needed audit coverage of its recipients. It has also taken several steps to implement the Audit Management and Resolution Program (AMRP). However, while the Mission did receive the one recipient-contracted audit due by April 29, 1994, the audit report did not follow relevant standards.

We found that in accordance with the AMRP, USAID/Ghana (1) established a Management Control Review Committee (MCRC) made up of the Deputy Director, Controller, Executive Officer, Contracting Officer, and the Directors of each mission office, (2) designated the Controller as its Audit Management Officer, and (3) established draft AMRP policy guidelines.

In addition, the Mission established an automated database of both U.S. and non-U.S. recipient organizations. The audit inventory database was derived from a Mission Accounting Control System (MACS) commitment status report (listing all USAID/Ghana commitments) and a MACS Section 1311 Review Report. A financial analyst reviewed each line item of the status report and classified all commitments over \$25,000 as being either related to a U.S. or non-U.S. organization, except those commitments she knew to be excluded from the AMRP (e.g., fixed price contracts, leases, and personal services contracts). The Section 1311 Review Report was then used to determine commitment starting and ending dates. After determining the dates of each commitment, she reviewed contract files where necessary to determine what commitments were subject to audit. Before completing the audit inventory, the financial analyst gave a draft copy of the audit inventory to project officers and asked them to verify that all recipients subject to audit had been included. She then developed the Audit Management Plan (AMP) and forwarded it to the MCRC for its approval. The Mission has submitted AMPs for fiscal years 1994 and 1995.

USAID/Ghana's FY 1994 AMP as updated on May 1, 1994, indicated that the Mission was responsible for monitoring the audits of five commitments amounting to \$39.7 million. The plan contained the information required by the 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 USAID/Ghana had one recipient-contracted audit that was due by April 29, 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. New contract awards are added to the audit inventory after they are issued by the Mission's Contracting or Executive Office. The analyst also reviews the recipient audit inventory database each quarter to determine if an audit is required, when an audit report is due and whether an audit report has been submitted to USAID. In addition, she coordinates with project officers to ensure all eligible grants are included in the inventory.

As noted earlier, USAID/Ghana has drafted guidelines on audit management and resolution. These guidelines assign specific responsibilities to mission personnel to ensure the implementation

of the Mission's Audit Management Plan. They also state that project officers should adopt procedures to ensure that the recipient organizations comply with the audit requirements contained in the recipient-contracted audit's scope-of-work.

Another aspect of the recipient audit program in Ghana is that the Government of Ghana's (GOG) Auditor General is required to appoint auditors for audits of all organizations in which GOG has a financial interest. Further, after appointing an auditor, the recipient organization contracts directly for the required audit without consulting USAID. As a result, the Agency is separated from the audit process and is not in a solid position to monitor its progress or results. This separation is a weakness, which caused the one recipient-contracted audit due by April 29, 1994, to be at variance with applicable standards. This issue is discussed in detail below.

**USAID/Ghana Should Negotiate an Agreement  
with the Government of Ghana Audit Service  
to Ensure that USAID Audit Requirements are Met**

According to the AMRP, USAID missions should obtain audit reports from recipients and review them to ensure the financial accountability of their programs. The financial accountability of programs is ensured when missions use independent audits to verify that grantees and contractors have used USAID funds according to agreement provisions. The standard audit provision for food aid<sup>1</sup> agreements requires audits to be performed of cooperating countries receiving more than \$25,000 per year in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States) or other acceptable auditing standards. The standard audit provision also states that "Both the auditor and the auditing standards to be used by the cooperating country must be acceptable to USAID." Agency policy defines "acceptable" audit firms as those firms that the USAID Office of the Inspector General (OIG) has evaluated and determined to be eligible to perform recipient audits in accordance with the OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients* (hereafter referred to as *Guidelines*).

USAID/Ghana obtained one recipient-contracted audit report as of April 29, 1994, which was provided by a GOG organization implementing a food aid program. However, this audit report did not follow applicable standards. More specifically, although the agreement contained the standard audit provision for food aid agreements, the audit was not performed by an audit firm acceptable to USAID and the audit report did not contain reports on the recipient's "Internal Control Structure" or "Compliance with Agreement Terms".

The audit did not follow applicable standards because the Mission did not coordinate with both the recipient and the Government of Ghana Audit Service (GOGAS) to ensure that USAID requirements were met. As a result, there is no assurance that the audit was performed using sound quality control procedures. Such procedures would have determined whether Agency funds

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<sup>1</sup>As contained in Public Law 480, Title III.

were properly controlled and used for their intended purposes in accordance with agreement terms. Because USAID audit requirements were not met, the Regional Inspector General for Audit in Dakar, Senegal (RIG/A/Dakar) rejected the food aid audit report. In its rejection letter to the Mission, RIG recommended that USAID/Ghana ensure that the audit is redone by an acceptable audit firm and in accordance with U.S. Government Auditing Standards.

USAID/Ghana is responsible for monitoring one audit in its FY (fiscal year) 1994 AMP and two audits in its FY 1995 AMP. However, in order to do so, the Mission must coordinate with the recipient organizations and GOGAS to ensure that these audits are carried out in accordance with the agreements' audit provisions. This coordination should begin with discussions at the recipient organizations. It should also expedite the negotiation of an agreement (Memorandum of Understanding) with GOGAS. Such an agreement would allow the Mission to be involved at an appropriate level to monitor its audits and ensure that they follow USAID recipient audit requirements.

We are not making any recommendations because the AMRP is a relatively new program. Our audit is also primarily a status report for use by USAID/Washington and the OIG in determining the progress of the program. In addition, RIG/A/Dakar previously recommended that the audit of the food aid agreement be redone and provided the Mission with a draft Memorandum of Understanding to be negotiated with GOGAS. Furthermore, USAID/Ghana agreed to negotiate with GOGAS and GOG recipient organizations to ensure that audits are performed in accordance with USAID requirements. Finally, the Mission stated that it would incorporate the procedures agreed to with GOGAS into its written Audit Management and Resolution Program Procedures.

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### **Management Comments and Our Evaluation**

In response to the draft audit report, USAID/Ghana stated that it has successfully negotiated a Memorandum of Understanding (MOU) with GOGAS relating to the conduct of audits of all USAID recipient organizations in which the GOG has a financial interest. The Mission further stated that the MOU clearly spells out the responsibilities of the Mission, the GOGAS and RIG/A/Dakar in planning and executing such audits.

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

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**SCOPE AND  
METHODOLOGY**

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**Scope**

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

As updated on May 1, 1994, USAID/Ghana's audit inventory of non-U.S. based organizations contained 20 commitments of \$25,000 or more going to foreign recipients. Total grant funding amounted to \$41.2 million. According to USAID/Ghana's AMP, the Mission was responsible for monitoring audits of five of these 20 commitments totaling \$39.7 million.

We used a questionnaire to assess whether USAID/Ghana had generally met its responsibilities under the AMRP requirements. For example, we determined whether USAID/Ghana: 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 audit reports. USAID/Ghana'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 USAID/Ghana's audit inventory, and whether audits were being performed as required, were the most important indicators of the program's progress.

We conducted our field work at USAID/Ghana in Accra, Ghana. It began on May 13, 1994 and concluded on May 19, 1994.

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**Methodology**

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

- 1) Reviewed USAID/Ghana's FY 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 USAID/Ghana. 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 April 29, 1994, and how many reports were received that met the recipient audit requirements?"

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

We interviewed the USAID/Ghana Controller, Contracting Officer, Financial Analyst and Project Officers as well as officials at the GOG's Ministry of Finance and Economic Planning and the GOG's Audit Service in order to answer the information objective, and to determine why one recipient-contracted audit report did not meet required audit standards.

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SUBJECT: RIG/A/DAKAR-- DRAFT AUDIT REPORT ON THE  
STATUS OF USAID/GHANA'S IMPLEMENTATION OF THE AUDIT  
MANAGEMENT AND RESOLUTION PROGRAM

REF: DAKAR 6713

1. USAID/GHANA ACKNOWLEDGES RECEIPT, ON AUGUST 1, 1994, OF SUBJECT DRAFT AUDIT REPORT ON THE STATUS OF THE MISSION'S IMPLEMENTATION OF THE AUDIT MANAGEMENT AND RESOLUTION PROGRAM.
2. PER RIG/A/DAKAR RECOMMENDATIONS, THE MISSION AND THE GOVERNMENT OF GHANA AUDIT SERVICE (GOGAS) HAVE SUCCESSFULLY NEGOTIATED A MEMORANDUM OF UNDERSTANDING (MOU) RELATING TO THE CONDUCT OF AUDITS OF ALL USAID RECIPIENT ORGANIZATIONS IN WHICH THE GOG HAS A FINANCIAL INTEREST. THE MOU CLEARLY SPELLS OUT THE RESPONSIBILITIES OF THE MISSION, THE GOGAS AND RIG/A/DAKAR, IN PLANNING FOR AND EXECUTING SUCH AUDITS. THE POLICY ADOPTED IN THE MOU IS THAT OF THE USE OF MISSION CONTRACTED AUDITS AS OPPOSED TO HOST COUNTRY CONTRACTED AUDITS. USAID REQUIREMENTS, RELATING TO THE USE OF ACCEPTABLE AUDIT FIRMS AND ACCEPTABLE AUDITING STANDARDS IN PERFORMING SUCH AUDITS HAVE ALSO BEEN INCORPORATED INTO THE MOU. A STANDARD STATEMENT OF WORK, GUIDANCE ON AUDIT FEE ESTIMATION AND STANDARD AUDIT REPORT DESK REVIEW GUIDELINES HAVE ALSO BEEN INCLUDED IN THE MOU.
3. THE MOU WAS SIGNED BY THE USAID/GHANA MISSION DIRECTOR ON AUGUST 26, 1994 AND HAS BEEN SENT TO THE AUDITOR GENERAL OF GOGAS FOR SIGNING. UPON RECEIPT OF THE DOCUMENTS FROM THE AUDITOR-GENERAL, THE MISSION

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WILL FORWARD THREE ORIGINALS OF THE MOU, ALL SIGNED BY THE MISSION DIRECTOR AND THE AUDITOR GENERAL TO RIG/A/DAKAR, FOR THE INSPECTOR GENERAL'S SIGNATURE,

4. RIG/A/DAKAR WILL BE EXPECTED TO KEEP ONE OUT OF THE THREE ORIGINAL DOCUMENTS AND TO FORWARD THE REMAINING TWO TO USAID/GHANA. THE MISSION WILL KEEP ONE OF THE TWO DOCUMENTS ON ITS FILES AND WILL SEND THE SECOND ONE TO THE GOGAS. REGARDS. BROWN

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