

**Regional Inspector General for Audit  
San José, Costa Rica**

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**Audit on the Status of  
USAID/Guatemala's Implementation of  
the Audit Mangement and Resolution Program**

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**Audit Report No. 1-520-94-008  
August 18, 1994**



**Regional Inspector General for Audit  
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USAID/Guatemala's Implementation of  
the Audit Management and Resolution Program**

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
SAN JOSE, COSTA RICA

Unit 2521  
APO AA 34020  
Telephone 220-4545  
FAX: (506) 220-3573

August 18, 1994

**MEMORANDUM**

TO: USAID/Guatemala Director, William Stacy Rhodes  
FROM: RIG/A/San José, *Courage N. Gothard* Coinage N. Gothard  
SUBJECT: Audit on the Status of USAID/Guatemala's Implementation of the Audit Management and Resolution Program

The Regional Inspector General for Audit/San José has completed its audit on the status of USAID/Guatemala's implementation of the Audit Management and Resolution Program. This final report is being transmitted to you for your information. The report contains no recommendations because the purpose of the audit was only to provide a status report for use by USAID/Washington management and the Office of Inspector General in determining the progress of USAID's implementation of the AMRP. We considered your comments on the draft report in preparing the final report and your comments are included as Appendix II.

I appreciate the cooperation and assistance that you and your staff provided to the auditors during this assignment.

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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 ensure that USAID funds provided to recipients (contractors and grantees) are properly accounted for and used for the purposes intended in accordance with applicable laws and regulations. Examples of these actions include the following:

- USAID Handbooks 3 and 13 were revised (in March 1992 and May 1991, respectively) to require non-U.S. and foreign governmental organizations receiving \$25,000 per year or more

of USAID funds in any one calendar year under a grant or loan agreement to have an independent audit performed to determine if the funds were spent in accordance with generally accepted accounting principles and whether the grantee or borrower complied with the terms of the agreement. USAID Handbook 3 applies to foreign governments and became effective with all new agreements and, for existing agreements, amendments for incremental funding signed on or after May 1, 1992. USAID Handbook 13 applies to non-U.S., nongovernmental organizations and was effective for all grants (and cooperative agreements) awarded or modified after May 1991.<sup>1</sup>

- In April 1992, USAID began to implement an Audit Management and Resolution Program (AMRP) which requires USAID missions to establish a recipient inventory of all contracts and grants with non-U.S. and U.S. contractors and grantees and an Audit Management Plan to identify and track the status of any audits of these contractors and grantees that the Mission is responsible for tracking. The inventory was to include all such grants even though recipient audits may not be required and should also include all U.S. grantees and contractors with which the mission has a direct grant or contract.

This management effort is important to USAID because accountability of funds is dependent upon audit verification of the proper use of funds provided to grantees and contractors. When audits are not performed, accountability is not reasonably assured.

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## **Information Objective**

This audit is one of several worldwide audits to determine if USAID has met its responsibilities under the AMRP. The audit objective was to answer the following question:

**Has USAID/Guatemala obtained the needed audit coverage of its grantees and contractors to verify that USAID funds are used for their intended purposes as required by USAID Handbooks and the Audit Management and Resolution Program?**

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<sup>1</sup> For purposes of this report, we use the term grant to apply to both grants and cooperative agreements.

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

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## **Audit Findings**

### **Has USAID/Guatemala obtained the needed audit coverage of its grantees and contractors to verify that USAID funds are used for their intended purposes as required by USAID Handbooks and the Audit Management and Resolution Program?**

USAID/Guatemala has not yet fully obtained the needed audit coverage of its grantees and contractors to verify that USAID funds are used for their intended purposes as required by USAID Handbooks and the AMRP.

USAID/Guatemala has made significant progress in implementing the requirements of USAID Handbooks and the AMRP to ensure the needed audit coverage of its grantees and contractors. However, USAID/Guatemala did not always obtain the final audit reports within the required timeframe. The progress made and the problems found are discussed below.

Some examples of the progress made in implementing the USAID Handbook and the AMRP requirements include the following:

- USAID/Guatemala amended all of its active Handbook 13 grants and cooperative agreements in October 1991 to include the new recipient audit clause and has included that clause in each grant and cooperative agreement signed after that date. Also, for Handbook 3 agreements, USAID/Guatemala followed USAID guidance (issued in March 1992) for adding the new standard audit provisions to all new agreements and amendments for incremental funding signed on or after May 1, 1992, for existing agreements.
- USAID/Guatemala began to implement the AMRP in September 1992 when it issued a mission order setting forth the operational guidance and procedures for implementation of USAID/Guatemala's AMRP, established the Mission Management Control Review Committee (MCRC), and designated the Mission Controller as its Audit Management Officer (AMO).<sup>2</sup> At the time of our audit, USAID/Guatemala

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<sup>2</sup> The MCRC is made up of the Deputy Director, Project Development and Support Officer, Health and Education Officer, Executive Officer, Contracts Officer, Controller, and Deputy Controller. The MCRC is responsible for ensuring the review of the Audit Management Plan.

was revising the Mission Order to specifically delineate the responsibilities (as required by the AMRP guidance issued in April 1992) of the Management Control Review Committee, the Audit Management Officer, the Regional Contracting Officer, the respective project officers, the Supervisor of the Financial Analysis Section, and the Executive Officer.

- USAID/Guatemala requires that its Audit Management Plan be completed and approved by October of each year and updates the audit inventory data base annually.
- USAID/Guatemala prepared its first data base and automated system (called the Audit Inventory and Schedule of Audits of Foreign Recipients) to track recipient audits in October 1993 using software supplied by the Regional Inspector General's Office for Audit/San José. This inventory and schedule includes grants to non-U.S. nongovernmental and foreign governmental organizations that USAID/Guatemala determined would require audit coverage under the recipient contracted audit program.
- As of March 31, 1994, USAID/Guatemala's automated tracking system identifies 64 grants and contracts with commitments totaling \$275 million and contains the information required by the AMRP (i.e., recipient name, project number, project title, amount, type of agreement, type of organization, start date, end date, end of grantee's fiscal year, audit firm contracted, audit period, audit report due date, last audit start date and status).
- Audit management is primarily carried out by a financial analyst in the Controller's office who inputs grants into the recipient audit tracking system. Monthly reports are prepared and submitted to the Mission Director and the Sector Implementation Committee (SIC) where the status of audit reports and recommendations are discussed. Project officers are responsible for monitoring the audit plans for their projects and for following up with grantees that do not submit recipient audit reports on time and discuss any problems during monthly and semiannual project implementation reviews.

As of March 31, 1994, USAID/Guatemala had 55 recipient audit reports due and the status of those are as follows: 28 final reports were received but 9 of these were on the average of 5 months late, 16 audit reports were in the draft stage, 4 audits were being planned, and the remaining 7 audits

were not going to be done.<sup>3</sup> Only 2 of the recipient audit reports received did not meet recipient audit requirements.

In conclusion USAID/Guatemala has made significant progress in implementing the recipient audit program and ensuring that adequate audit coverage was given to grantees receiving more than \$25,000; however, more emphasis must be placed on receiving the audit reports within the required timeframe.

We are not making any recommendations because the AMRP is a new program and the purpose of the audit was only to provide a status report for use by USAID/Washington management and the Office of Inspector General in determining the progress of USAID's implementation of the AMRP. **Moreover, USAID/Guatemala's actions to date to implement the Program have been commendable.**

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## **Management Comments and Our Evaluation**

USAID/Guatemala reviewed a draft of this report and agreed with our findings and conclusions. The entire text of USAID/Guatemala's comments are included as Appendix II.

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<sup>3</sup> The 44 final audit reports and reports in draft stages included 14 non-federal audits that were done in lieu of recipient audits.

## SCOPE AND METHODOLOGY

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### Scope

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

As of March 31, 1994, USAID/Guatemala had in its audit plan 64 grants, cooperative agreements, and contracts of \$25,000 or more to non-U.S., non-governmental organizations (NGOs). Total funding commitments to these recipients was \$274.8 million.

We used a questionnaire to assess whether USAID/Guatemala had generally met its responsibilities under the requirements of USAID Handbooks 3 and 13 and the AMRP guidance issued in April 1992. The questionnaire included: requiring standard audit provisions (clauses) in grants and cooperative agreements with non-U.S. private and governmental organizations over which it had monitoring responsibility; developing and maintaining an up-to-date mission audit inventory data base system for monitoring/tracking to ensure that required audits were performed; and obtaining the required audits.

However, since the purpose of the audit was only to provide a status report to USAID/Washington management and the Office of the Inspector General to determine the progress of USAID's implementation of the AMRP we did not attempt to verify USAID/Guatemala's negative responses, such as:

- host-country contracts with indigenous for-profit contractors active after April 3, 1992 are not included in the audit inventory data base; and
- USAID/Guatemala was not aware of the specific requirement to compare the Mission's inventory of direct grants and contracts to U.S. organizations to Quarterly Reports published by the USAID/Washington Office of Procurement (FA/OP) to

confirm that all organizations are included in the FA/OP tracking system.

The only answer/information provided by USAID/Guatemala in response to our questionnaire that we verified was the number of recipient audit reports that should have been received and how many met the recipient audit requirements. Limited audit tests were performed to verify this information because the most important information for showing the results of the Program was whether required audits were done or not.

We conducted our field work at the USAID/Guatemala offices in Guatemala City, Guatemala starting May 12, 1994, and concluding May 19, 1994.

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## **Methodology**

To answer the information objective, we obtained answers to our questionnaire by sending the questionnaire to USAID/Guatemala for them to fill out prior to our audit field trip. We reviewed the questionnaire and followed up with the Mission on any answers that appeared incorrect based on our knowledge of the USAID/Guatemala recipient audit program or inconsistent with other information provided in the questionnaire. We performed audit tests to verify the information provided in response to question No. 34 of the questionnaire, "How many recipient audit reports were due by March 31, 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 grantee's fiscal year) had been completed, received by USAID/Guatemala, and were done in accordance with the audit provisions and the guidelines. We did not, however, verify the reliability of the computer-generated data used to establish USAID/Guatemala's recipient audit inventory because of the inordinate amount of time involved with accomplishing such a task.

We interviewed the USAID/Guatemala Controller, the financial analyst responsible for managing the audit program, other financial analysts responsible for certain projects, and other USAID/Guatemala personnel knowledgeable on the recipient audit program. We reviewed recipient audit report files for correspondence with grantees and CPA firms and for any audit reports received. We also obtained written representations from USAID/Guatemala for all essential assertions relating to the information objective.

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## memorandum

APPENDIX II  
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DATE: August 3, 1994

REPLY TO  
ATTN OF: USAID/G-CAP Director, William Stacy Rhodes *WR*

SUBJECT: Audit of the Status of USAID/Guatemala's Implementation of the  
Audit Management & Resolution Program (Report 1-518-94-0XX)

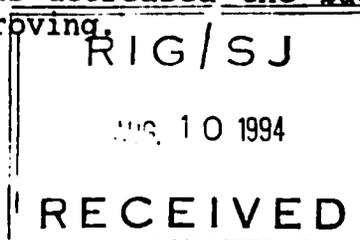
TO: RIG/A/San Jose, Coinage Gothard

REF: Your Draft Report

We have reviewed your draft report and its findings. The Audit Management and Resolution Program represents a major change in the way that we do business and more importantly, the way our grantees do business. Tremendous staff time has gone into working with grantees and audit firms to educate them in USAID requirements and U.S. auditing requirements and terminology, since most of these concepts are foreign to our counterparts. As with any major change, we make progress towards our overall goal of having 100% audit coverage, not in days but in months and years. We have made considerable progress in implementing the program. We believe that within current guidelines we have complied with the overall goal of the program, and all of our funds have been or are in the process of being audited.

As part of our continuing efforts to improve our performance, we would like to note that there is still some confusion on audit responsibility for Non-U.S. Contractors, sub-contractors, and sub-grantees that needs to be clarified, and we hope that clear guidelines will be forthcoming. We hope that these issues will be included in the IG Worldwide Audit of this Program.

We agree that the amount of time that elapses from the start of an audit to the approval of the final report has been unacceptable. We have worked with your office to reduce the backlog of reports pending issuance by accepting responsibility for the review and approval of the reports. Initially, 24 Recipient Contracted Audit Reports were returned to us for review and approval by the Controller. Twenty-three of the reports were approved and one was returned to your office with serious problems, based on the approval guidelines established by your office. Before the Mission was authorized to approve the reports, our experience with the amount of time it took for the RIG to approve final reports varied from one month to 15 months, with an average turnaround time of almost six months. Our policy is to approve final reports within five working days of receipt, and we are meeting that target in most cases. This has decreased the backlog to zero for reports that we are approving.



OPTIONAL FORM NO. 10  
(REV. 1-80)  
GSA FPMR (41 CFR) 101-11.6  
5010-114

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However, based on our records, we still have 16 reports with RIG/A/SJ pending approval. A copy of the list of reports with RIG/A/SJ is Attachment A. The impact of the delay in the issuances of a report is a delay in starting subsequent audits. Grantees and their auditors are reluctant to start another audit if they are still waiting for the previous audit report to be approved. We hope to be completely on schedule and in compliance with the guidelines of completing audits within three months after the end of the fiscal year in the next audit cycle.

We also hope that as a result of the audits and the subsequent technical assistance provided to strengthen the deficiencies identified in the reports, the number of recommendations will also be reduced.

The Audit Management Resolution Program is an integral part of our project monitoring systems, and we will continue to strengthen that relationship. For example, the audit report is our way of monitoring compliance with counterpart contributions. This supplements routine field visits by project managers. We will continue our efforts to further integrate this management tool into our regular project management.

We have attached a copy of the required representation letter to this memorandum (the signed original was sent separately) and hope that our comments will be considered in issues and recommendations made to USAID Management in order to improve this important program.

I want to thank you and your staff for their cooperation during this brief audit. A copy of the required representational letter is Attachment B.

If there are any questions, please do not hesitate to contact me.

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Drafted by: Gary L. Byllesby, FMO In draft

Cleared by: Hilda Arellano, DDIR In draft

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