

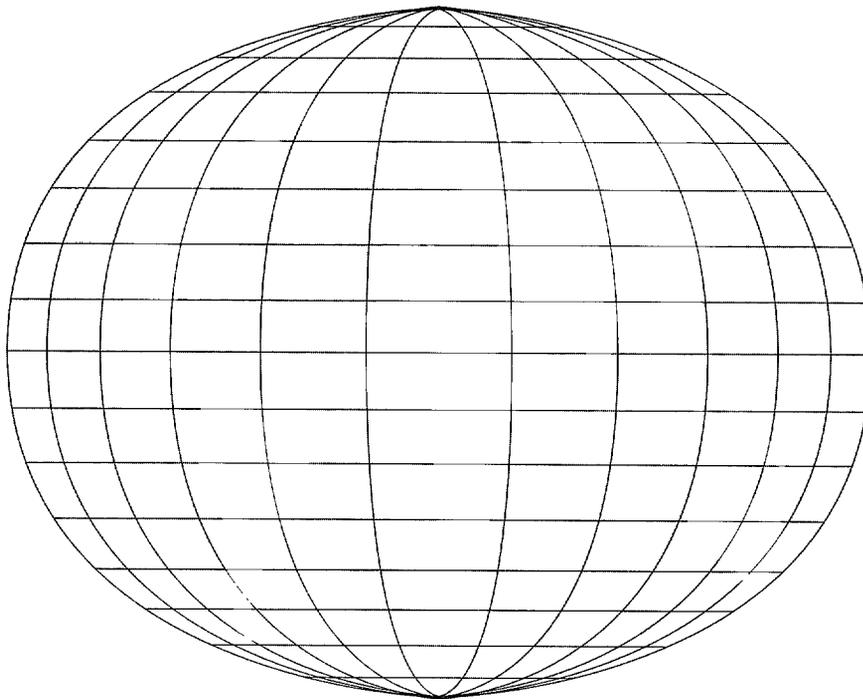
# **Report of Audit**

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## **AUDIT OF USAID/GUINEA'S RECIPIENT AUDIT UNIVERSE**

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**Report No. 7-675-01-003-P  
May 4, 2001**



**Dakar, Senegal**

**OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

# USAID

## OFFICE OF INSPECTOR GENERAL

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U.S. Agency for  
International Development



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INTERNATIONAL  
DEVELOPMENT

RIG/Dakar

May 4, 2001

**MEMORANDUM**

**FOR:** Harry Birnholz, USAID/Guinea Director  
**FROM:** Henry Barrett, Regional Inspector General/Dakar  
*Henry Barrett*  
**SUBJECT:** Audit of USAID/Guinea's Recipient Audit Universe (Report No. 7-675-01-003-P)

This memorandum is our report on the subject audit. We have considered your comments to the draft report and have included them in their entirety as Appendix II. The report contains no recommendations for your action.

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

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## Summary of Results

Financial audits of contracts, grants, and cooperative agreements are a primary basis for effective management and control of USAID's program expenditures. We conducted the audit as part of a worldwide Office of Inspector General audit to confirm that this important management and control system was in place and functioning as intended.

We designed the audit to determine whether USAID/Guinea had accurately defined its audit universe and ensured that required audits were conducted in a timely manner. The audit disclosed that USAID/Guinea had developed and maintained an audit universe that was accurate and complete. There were, however, no non-U.S. based recipients with reported expenditures in amounts that were subject to audit.

Mission management agreed with the findings in this report.

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## Background

Financial audits of contracts, grants, and cooperative agreements are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide USAID management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID-financed funds, property and other assets are safeguarded against unauthorized use or disposition.

In response to congressional concerns, USAID has taken an active role in recent years, using audits as a management tool, to improve financial accountability of its programs. During 1991 and 1992, USAID revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations disbursing USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994, and to \$300,000 in July 1998.

In addition, USAID issued a general notice in April 1992 defining the role of USAID missions in obtaining audits of their contracts, grants and cooperative agreements with non-U.S. organizations. In May 1996, these requirements were incorporated into Chapter 591 of USAID's Automated Directives System (ADS), which requires USAID missions to (1) establish an audit management program; (2) maintain an audit inventory database; and (3) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives have important consequences in preventing misuse of USAID development funds and in facilitating timely corrective actions by USAID. Lack of adequate audit coverage constitutes an unacceptable risk because, without such a control mechanism, financial accountability of program expenditures cannot be reasonably assured.

In March 1995, the Office of Inspector General (OIG) issued Audit Report No. 3-000-95-009 on USAID's implementation of USAID's 1992 initiative to improve the financial management of its programs. The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities. Additionally, Audit Report No. 9-000-98-002-F was issued in March 1998 on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that, although the majority of USAID missions reviewed generally obtained audits of their contracts, grants, and cooperative agreements as required by the ADS, a significant number of required audits were not completed at several missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years because the lack of audit coverage was perceived as a high-risk area.

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## **Audit Objective**

As part of our fiscal year 2001 annual audit program, we performed this audit to answer the following audit objective:

**Was the audit universe for USAID/Guinea accurate and were required audits conducted in a timely manner?**

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

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## **Audit Findings**

**Was the audit universe for USAID/Guinea accurate and were required audits conducted in a timely manner?**

The audit disclosed that USAID/Guinea developed and maintained an audit universe that was accurate and complete. However, the audit universe indicated that there were no required audits to be conducted of non-U.S. based recipients.

As of September 30, 1999, USAID/Guinea reported expenditures of approximately \$15 million in program funds for contracts, grants, cooperative agreements, and other miscellaneous types of documents. Of that amount, there were no expenditures reported by non-U.S. organizations in amounts that were subject to audit. All documents on the inventory with reported expenditures over the audit threshold of \$300,000 were with U.S. based organizations that were not required to have local audits. The following table provides a breakdown of the reported expenditures by type of document.

**USAID/Guinea**  
**Fiscal Year 1999 Reported Program Expenditures**  
**And Number of Documents**

Type of Document	U.S. And Non-U.S. Recipients	
Contracts	\$ 1,015,151	31
Grants	7,267,738	12
Cooperative Agreements	3,053,000	3
Other*	3,659,343	190
<b>Total</b>	<b>\$ 14,995,232</b>	<b>236</b>

Note: \*Includes purchase orders, self-help agreements, travel documents, etc.

To comply with the requirements of ADS Chapter 591, USAID/Guinea took the following actions to implement an audit management system:

- issued four mission orders to provide mission-specific guidance for the audit management program;
- established a management control review committee to monitor the status of the Mission's audit program and to assure that its audit responsibilities were carried out;
- designated an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on implementation of recipient-contracted audit recommendations;
- included required audit clauses and budgeted funds for audits; and
- maintained an accurate annual audit inventory/plan of contracts, grants, and cooperative agreements.

In addition, as part of its reporting requirements under the Federal Managers' Financial Integrity Act of 1982, USAID/Guinea directed an evaluation of its system of management controls in effect during the fiscal year ended September 30, 1999, that included a review of its audit management system.

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**Management  
Comments and  
Our Evaluation**

Mission management concurred with the contents of the report.

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**Scope and Methodology****Scope**

The audit was conducted in accordance with generally accepted government auditing standards and assessed whether: (1) USAID/Guinea's audit universe was complete and accurate, and (2) required audits were done in a timely manner.

Fieldwork was performed at USAID/Guinea in Conakry, Guinea from January 22 to February 2, 2001 and covered approximately \$15 million in reported USAID expenditures during fiscal year ended September 30, 1999. The audit scope included:

- reviewing the Mission's audit management program and related documents,
- interviewing cognizant Mission officials, and
- comparing the Mission's audit inventory and audit plan to data contained in the Mission Accounting and Control System. (MACS).

In comparing the audit inventory to the data in the MACS, we determined (1) total expenditures reported for all grants, contracts and cooperative agreements (U.S. and non-U.S.) for the fiscal year ended September 30, 1999, and (2) total expenditures reported for non-U.S. organizations in excess of \$300,000 for the respective organizations' fiscal year closest to USAID's fiscal year ended September 30, 1999.

The principal audit criteria were Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines) dated July 1998.

**Methodology**

To assess management controls, the methodology included (1) reviewing the Mission's audit inventory database to determine if it contained the information needed to identify and track required audits, (2) examining appropriate documentation, and (3) conducting interviews with cognizant officials to determine whether the Mission had met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we identified the universe of USAID/Guinea's contracts, grants and cooperative agreements. We then determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at September 30, 1999 using the Mission's contract files and the MACS. For the period under review, we did not find any non-U.S. recipients subject to audit.

We did not assess the reliability of data contained in USAID/Guinea's MACS. Additionally, due to the small size of the audit universe, we did not use a

materiality threshold and considered one exception as significant for reporting purposes.

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Management  
Comments

**USAID/GUINEA**

# Memo

**To:** Philip Horschler, RIG  
**From:** Harry Birnholz, Director *B*  
**CC:** Mamadou Bary, Financial Analyst & AMO  
**Date:** 05/03/01  
**Re:** Recipient Audit Universe Draft Report

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USAID/Guinea concurs with the finding of the subject audit.