Audit of the Accuracy of USAID/RCSA's Recipient Audit Universe

Report No. 4-690-00-002-P
February 7, 2000

REGIONAL INSPECTOR GENERAL/PRETORIA

memorandum

Regional Inspector General
Pretoria

DATE: February 7, 2000

TO: Regional Director, USAID/RCSA, Edward Spriggs

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Audit of the Accuracy of USAID/RCSA's Recipient Audit Universe, Report Number 4-690-00-002-P

This is the final report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report has no recommendation. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide Agency 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, the Agency 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.

Furthermore, in April 1992, USAID issued a General Notice, 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, among other things, requires USAID

missions to (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are of far reaching consequence in preventing misuse of USAID development funds and facilitating timely corrective actions by the Agency. 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. 03-95-009 on USAID's implementation of the Agency'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.

In March 1998, the OIG issued Audit Report No. 9-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that 11 of the 14 USAID missions selected Agency-wide generally obtained audits of their contracts, grants, and cooperative agreements as required by ADS chapter 591. However, a significant number of required audits were not completed at 10 of the above 14 USAID 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 lack of audit coverage was perceived as a high-risk area. Accordingly, RIG/Pretoria included this audit in our fiscal year 2000 audit plan.

Audit Objective

RIG/Pretoria performed this audit to answer the following question:

Is USAID/RCSA's audit universe accurate and were required audits conducted in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit showed that USAID/RCSA developed an accurate audit universe and required audits were conducted in a timely manner.

As of September 30, 1999, USAID/RCSA disbursed approximately $17,022,777 to 19 U.S and 3 non-U.S. organizations. The table below provides a breakdown of these disbursements by type of agreement and by number and type of recipients:

	U.S.		Non-U.S.		Total	
Type of Agreement	Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients	
Contract	$13,944,101	15	0	0	$13,944,101	15
Grant	1,210,944	3	0	0	1,210,944	3
Cooperative Agreement	750,778	1	1,116,954	3	1,867,732	4
TOTAL	$15,905,823	19	$1,116,954	3	$17,022,777	22

From the above table, we determined that the above 3 non-U.S. recipients with a total disbursement of $1,116,954 were subject to audit coverage at September 30, 1999. We then ascertained that (1) the above recipients were included in the Mission's audit database inventory, (2) the required audits were completed on a timely basis, and (3) audit reports were prepared in accordance with USAID's guidelines on financial audits.

In addition, the audit showed that the Mission took several actions to implement an audit management program in accordance with the requirements of ADS Chapter 591which included:

- establishing 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;

- designating an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on implementation of recipient-contracted audit recommendations;

- including required audit clauses in its grants and contracts and budgeting funds for audits; and

- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

Management Comments and Our Evaluation

USAID/RCSA management concurred with the report's contents, findings, and conclusions and stated that the audit was carried out in a professional and thorough manner.

APPENDIX I

SCOPE AND METHODOLOGY

Scope

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

The OIG conducted a "Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements (Report No. 9-000-98-002-F, March 20, 1998)." That report considered recipient financial audits which had been completed as of October 31, 1996. Therefore, we obtained information on audits completed after that date.

Field work was performed at USAID/RCSA in Gaborone, Botswana from November 1 through November 4, 1999 and covered approximately $1.1 million of USAID disbursements subject to audit. The audit scope included:

(1) reviewing the Mission's audit management program and related documents,

(2) interviewing cognizant Mission officials, and

(3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements and identifying those that require audits

In addition, we obtained information on (1) total disbursement for all grants, contracts and cooperative agreements (U. S. and non-U.S.) for USAID's latest fiscal year ended September 30, 1999 and, (2) the number and amount of grants, contracts and cooperative agreements falling below the audit threshold of $300,000 to obtain a complete picture of the Mission's portfolio.

The audit criteria principally comprised of Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines), revised in July 1998.

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, and (2) examining documentation, and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID/RCSA's grants, contracts and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at September 30,1999. The above information was obtained from the Mission's contract files and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory, (2) required audits were completed on a timely basis, (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/Pretoria for desk review, and the (4) agreements contained the required audit clauses.

We did not audit the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. Also, because of the small size of the audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.

APPENDIX II

memorandum

Regional Center for Southern Africa

DATE: **December 29, 1999**

TO: **Regional Inspector General/Pretoria, Joseph Farinella**

FROM: **Acting Regional Director, USAID/RCSA, Anthony Vance** AVV

SUBJECT: **Audit of the Accuracy of USAID/RCSA's Recipient Audit Universe, Report Number 4-690-00-00X-P**

We have reviewed the final report on the subject audit. We fully agree to the findings and conclusions made.

We appreciate the hard work and analysis that went into conducting the audit, and would like to mention the professional way in which the audit was carried out by your staff. A great deal of material was covered in a relatively short period of time. It was a pleasure to work with such a competent group of people.