

PD-HBB-068

**AUDIT OF VERIFICATION
OF ACCOUNTABILITY FOR DOLLARS
AND LOCAL CURRENCY IN
SELECTED MISSIONS IN THE
LATIN AMERICA AND CARIBBEAN REGION**

**Audit Report No. 1-500-90-09
April 30, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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April 30, 1990

MEMORANDUM

TO: AA/MS, Michael Doyle
FROM: *Erinice Bethard for*
D/IG, James B. Durnil
SUBJECT: Audit of Verification of Accountability for Dollars and Local Currency in Selected Missions in the Latin America and Caribbean Region

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of verification of accountability for dollars and local currency in selected Missions in the Latin America and Caribbean Bureau. Five copies of the audit report are enclosed for your action.

The draft report was submitted to your office for comment and the comments provided are attached to the report. Recommendation No. 4 is for your action. This recommendation is resolved and may be closed when corrective action has been completed. Please advise the Office of the Regional Inspector General for Audit/Tegucigalpa within 30 days of the actions planned or taken to implement the recommendation.

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

Enclosures: a/s

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MEMORANDUM

TO: AA/LAC, James H. Michel

FROM: D/IG, *James B. Durnil for* James B. Durnil

SUBJECT: Audit of Verification of Accountability for Dollars and Local Currency in Selected Missions in the Latin America and Caribbean Region

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of verification of accountability for dollars and local currency in selected Missions in the Latin America and Caribbean Bureau. Five copies of the audit report are enclosed for your action.

The draft report was submitted for comment to your office and the six Missions discussed in the report. The comments provided are attached to the report. Recommendation Nos. 1, 2, and 3 are for your action. These recommendations are resolved and may be closed when corrective actions have been completed. Please advise the Office of the Regional Inspector General for Audit/Tegucigalpa within 30 days of the actions planned or taken to implement the recommendations.

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

Enclosures: a/s

EXECUTIVE SUMMARY

Officials who manage A.I.D. dollars or local currency associated with A.I.D. programs must fully account for their activities to the public. Independent audit is an important internal control technique which serves to verify that funds are properly accounted for and used for authorized purposes. Audits of A.I.D.-managed resources may be performed by Federal auditors, by non-Federal auditors supervised by the Office of the Inspector General, or by non-Federal auditors contracted by organizations receiving assistance. The fundamental requirements for audit of appropriated dollars and local currency associated with A.I.D. programs are presented in Appendix 2.

This report discusses the use of audit by six Missions in the Latin America and Caribbean region to verify accountability for appropriated dollars and host government-owned local currency. The report includes findings and recommendations for action by A.I.D./Washington based on our work in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, and Peru. The detailed audit results for each Mission can be found in audit report Nos. 1-515-89-18, 1-517-90-08, 1-519-90-03, 1-520-89-15, 1-521-89-24, and 1-527-89-29.

The Office of the Regional Inspector General for Audit/Tegucigalpa made an audit of six Latin American and Caribbean Missions' verification of accountability for dollars and local currency. The audit objectives were to evaluate (1) compliance with laws, regulations, and Agency guidance dealing with audit requirements and (2) the Missions' systems for ensuring that audit requirements were met.

The Missions had not completely complied with audit requirements applicable to appropriated dollar projects. Although project papers prepared by the Missions generally evaluated audit needs in accordance with A.I.D. Payment Verification Policy Statement No. 6, the Missions had not done as well in ensuring that audits were actually performed and used effectively. We found instances of noncompliance with Office of Management and Budget Circular No. A-73 and A.I.D. guidance. In many cases, these instances of noncompliance resulted from weaknesses in the Missions' systems for ensuring that audit requirements were met.

Four of the five Missions which were managing local currency projects were complying with A.I.D.'s Supplemental Guidance on Programming Local Currency, which requires that missions have "reasonable assurance" that audits of relevant activities will be undertaken. The fifth Mission planned to request the Inspector General's Office to supervise a non-Federal audit of its local currency programs.

The Latin America and Caribbean Bureau has taken several steps to strengthen audit coverage of projects and programs in the region. For example, in August 1987 the Bureau issued guidance which requires missions to budget project

funds for audit or use program development and support funds for audit of ongoing projects which did not have funds available for audit. More recently, in November 1989, the Bureau sent missions a booklet for distribution to organizations receiving A.I.D. assistance entitled Your Role in the Accountability Process. This booklet requires that audits of U.S. appropriated dollar projects be conducted in accordance with U.S. General Accounting Office standards.

The report findings discuss the need to (1) ensure that required audits are actually performed, (2) make more effective use of audit reports prepared by recipient organizations or their auditors, (3) request final audits when necessary, and (4) revise the standard refund provision used in agreements with nongovernmental organizations to better protect A.I.D.'s interests.

Audit provisions in A.I.D. assistance agreements specify whether and how often audits must be performed. Only 62 percent of the audits required by the agreements we reviewed were actually performed. Missions which used formal monitoring systems to ensure that required audits were made had achieved much better compliance with audit requirements (91 percent performed). Conversely, in those Missions which lacked formal monitoring systems, only 34 percent of required audits were performed. Audit requirements must be met to verify that A.I.D. funds are properly accounted for and used for authorized purposes. The report recommends that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish formal monitoring systems to ensure that required audits are actually performed. The Latin America and Caribbean Bureau agreed with this finding and recommendation.

Office of Management and Budget Circular No. A-73 states that "Primary responsibility for audits of federally assisted programs rests with recipient organizations. * * * Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies". However, the Missions we audited were not making the most effective use of audits prepared or contracted by recipient organizations. In reviewing recipient audit reports we found problems in three areas: (1) 30 percent of the reports were not on file in the Missions and had to be requested from the recipient organizations themselves, (2) 89 percent of the reports did not meet established standards, and (3) in 41 percent of the reports which included significant recommendations the Missions had not followed up on significant recommendations. The report recommends that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to provide additional guidance to recipient organizations and strengthen their own internal procedures. The Latin America and Caribbean Bureau agreed with this finding and recommendation.

A.I.D. Contract Information Bulletin No. 87-5, dated January 14, 1987, requires missions to establish closeout procedures and request final audits when

appropriate. Missions had requested final audits for only 14 percent of the cost reimbursement contracts, grants, and cooperative agreements over \$500,000 which had ended since this guidance was issued. Some of the Missions we audited had not focused attention on closeout requirements, and five of the six Missions had not developed closeout procedures. Final audits must be requested when appropriate to ensure that A.I.D. funds are used only for reasonable and necessary costs. The report recommends that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish closeout procedures specifying when final audits should be requested. The Latin America and Caribbean Bureau agreed with this finding and recommendation.

Audits sometimes show that recipient organizations have used A.I.D. funds for unauthorized purposes or cannot account for them. Depending on the circumstances, if A.I.D. wishes to seek refunds in the latter situation it may not have a firm contractual basis for doing so. This is because the standard refund provision used in agreements with nongovernmental organizations does not clearly establish A.I.D.'s right to recover undocumented expenditures. As a result, A.I.D. may not be able to obtain refunds when available documentation does not clearly show how A.I.D. funds were used. The report recommends that the Assistant to the Administrator for Management Services revise the standard refund provisions for nongovernmental organizations to better protect A.I.D.'s right to obtain refunds when expenditures are not adequately documented. The Procurement Planning, Policy and Evaluation Staff agreed with this recommendation.

Office of the Inspector General

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY
IN SELECTED MISSIONS IN THE
LATIN AMERICA AND CARIBBEAN REGION**

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PART I - INTRODUCTION

A. Background

Officials who manage A.I.D. dollars or local currency associated with A.I.D. programs must fully account for their activities to the public. Independent audit is an important internal control technique which serves to verify that funds are properly accounted for and used for authorized purposes. Audits of A.I.D.-managed resources may be performed by Federal auditors, by non-Federal auditors supervised by the Office of the Inspector General, or by non-Federal auditors contracted by organizations receiving assistance. The fundamental requirements for audit of appropriated dollars and local currency associated with A.I.D. programs are presented in Appendix 2.

This report discusses the use of audit by six Missions in the Latin America and Caribbean region to verify accountability for appropriated dollars and host government-owned local currency. The report includes findings and recommendations for action by A.I.D./Washington based on our work in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, and Peru. The detailed audit results for each Mission can be found in audit report Nos. 1-515-89-18, 1-517-90-08, 1-519-90-03, 1-520-89-15, 1-521-89-24, and 1-527-89-29.

As of October 31, 1988, these six Missions were managing 213 active projects with obligations of \$1.3 billion, disbursements of \$562.1 million, and advances of \$47.4 million. Five of the six Missions were also monitoring local currency deposited under Public Law 480, Section 416, and Economic Support Fund programs which was used for projects. Local currency equivalent to \$1.1 billion had been programmed for projects and the equivalent of \$841.1 million had been disbursed to the implementing agencies. ¹

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made an audit of six Latin American and Caribbean Missions' verification of accountability for dollars and local currency. The Missions were selected using judgmental

The exchange rates used to convert local currency into dollar equivalent are the same rates used to deposit the local currency, except for Peru where we used the exchange rate obtained by the U.S. Embassy for dollars as of October 31, 1988. Local currency amounts for the Missions are as of October 31, 1988 except for the Dominican Republic which are as of November 14, 1989.

sampling techniques which we feel provide a representative sample of all missions in the Latin America and Caribbean Region. However it should be noted that our sample does not represent a statistically valid sample. The six Missions represent 60 percent of all missions in the region and 33 percent of all A.I.D. offices in the region including missions, Offices of A.I.D. Representatives, and regional offices.

The audit objectives were to evaluate the Missions' (1) compliance with laws, regulations, and Agency guidance dealing with audit requirements and (2) systems for ensuring that audit requirements were met.

The audit covered all appropriated dollar agreements signed by the six Missions which were active as of October 31, 1988, except for three small USAID/Guatemala projects. The Missions had disbursed \$562.1 million and advanced \$47.4 million under the agreements. However, examinations of these disbursements and advances were limited to those required to accomplish the audit objectives.

The audit also covered a sample of local currency projects:

- In Costa Rica, our audit covered all Public Law 480 (PL 480) local currency projects active as of October 31, 1988. The audit also covered nine Economic Support Fund (ESF) local currency projects active as of October 31, 1988. The ESF projects were selected randomly but did not constitute a statistically valid sample. The nine projects represented about 8 percent of the active ESF projects and about 34 percent of the disbursements for all active ESF local currency projects.
- The audit in Haiti covered all PL 480 and ESF local currency projects active as of October 31, 1988.
- The audit in Peru covered all PL 480 and Section 416 local currency projects active as of October 31, 1988.
- In El Salvador, our audit covered all 1987 and 1988 PL 480, Section 416, and ESF local currency projects active as of October 31, 1988.
- In the Dominican Republic, our audit covered all PL 480, Section 416, and ESF local currency projects active as of November 14, 1989.

Disbursements under these local currency projects were equivalent to \$841.1 million. Examinations of these disbursements were limited to those required to achieve the audit objectives.

Finally, the audit covered all cost reimbursement contracts, grants, and cooperative agreements completed between January 14, 1987 and October 31, 1988.

Our review of internal controls and our tests for compliance were performed to accomplish the audit objectives and are discussed in detail in the compliance and internal control section beginning on page 15 of this report. The review of internal controls was limited to those controls which ensure that audit requirements are met.

The audit fieldwork was conducted from October 31, 1988 through December 1, 1989 in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, and Peru. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The Missions had not completely complied with audit requirements applicable to appropriated dollar projects. Although project papers prepared by the Missions generally evaluated audit needs in accordance with A.I.D. Payment Verification Policy Statement No. 6, the Missions had not done as well in ensuring that audits were actually performed and used effectively. We found instances of noncompliance with Office of Management and Budget Circular No. A-73 and A.I.D. guidance. In many cases, these instances of noncompliance resulted from weaknesses in the Missions' systems for ensuring that audit requirements were met.

Four of the five Missions which were managing local currency projects were complying with A.I.D.'s Supplemental Guidance on Programming Local Currency, which requires that missions have "reasonable assurance" that audits of relevant activities will be undertaken. The fifth Mission planned to request the Inspector General's Office to supervise a non-Federal audit of its local currency programs.

The Latin America and Caribbean Bureau has taken several steps to strengthen audit coverage of projects and programs in the region. For example, in August 1987 the Bureau issued guidance which requires missions to budget project funds for audit or use program development and support funds for audit of ongoing projects which did not have funds available for audit. More recently, in November 1989, the Bureau sent missions a booklet for distribution to organizations receiving A.I.D. assistance entitled Your Role in the Accountability Process. This booklet requires that audits of U.S. appropriated dollar projects be conducted in accordance with U.S. General Accounting Office standards.

The report findings discuss the need to (1) ensure that required audits are actually performed, (2) make more effective use of audit reports prepared by recipient organizations or their auditors, (3) request final audits when necessary, and (4) revise the standard refund provision used in agreements with nongovernmental organizations to better protect A.I.D.'s interests. The report recommends that the Assistant Administrator for Latin America and the Caribbean provide missions with additional guidance on scheduling and using audits. It also recommends that the Assistant to the Administrator for Management Services revise the standard refund provision used in agreements with nongovernmental organizations.

A. Findings and Recommendations

1. Missions Needed Formal Monitoring Systems To Ensure That Audits Were Performed When Required

Audit provisions in A.I.D. assistance agreements specify whether and how often audits must be performed. Only 62 percent of the audits required by the agreements we reviewed were actually performed. Missions which used formal monitoring systems to ensure that required audits were made had achieved much better compliance with audit requirements (91 percent performed). Conversely, in those Missions which lacked formal monitoring systems, only 34 percent of required audits were performed. Audit requirements must be met to verify that A.I.D. funds are properly accounted for and used for authorized purposes.

Recommendation No. 1

We recommend that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish formal monitoring systems to ensure that audits required by A.I.D. agreements are actually performed.

Discussion

Audit provisions in A.I.D. assistance agreements specify whether and how frequently audits must be performed. Agreements currently in use require, at a minimum, that non-U.S. nongovernmental organizations be audited annually and that U.S. nongovernmental organizations be audited no less frequently than every two years. Standard agreement provisions in use with foreign governments require that audits be performed "regularly." To be conservative, we assumed that the term "regularly" required audits to be performed at least once every five years, even though more frequent audits would be desirable in most cases.

Eighty of the agreements we reviewed required audits to be made prior to the time of our audit. (The remaining agreements either did not require audits or required them to be performed sometime in the future.) Audits were performed when required for 50 agreements (62 percent) but not for the other 30 agreements.

The degree of compliance Missions had achieved depended largely on how they monitored compliance with audit requirements. Three Missions we reviewed used simple listing systems to determine which audits had been performed and which audits remained to be performed. In these Missions, 91 percent of the required audits were actually performed.

The other three Missions we reviewed lacked formal monitoring systems or had only recently begun formally monitoring compliance with audit requirements. In these Missions, only 34 percent of the required audits were performed.

Other internal control techniques used by A.I.D. missions can compensate to a limited extent for inadequate audit coverage. However, only audit provides management with independent verification that all other internal control techniques, operating together, have produced the desired result: A.I.D. funds properly accounted for and used for authorized purposes.

In summary, required audits were only performed in 62 percent of the cases reviewed. However, Missions which used simple listing systems to evaluate audit coverage of their projects had achieved much better compliance with audit requirements. The Assistant Administrator for Latin America and the Caribbean should direct missions in the region to establish formal monitoring systems to ensure that required audits are performed.

Management Comments

The Latin America and Caribbean Bureau agreed with this finding and recommendation. USAID/Guatemala also agreed with the finding and recommendation, and USAID/El Salvador noted that it had already implemented a monitoring system to ensure that audits were performed when required.

Office of Inspector General Comments

Recommendation No. 1 is resolved and may be closed when corrective action has been completed.

2. Missions Should Use Recipient Audits More Effectively

Office of Management and Budget Circular No. A-73 states that "Primary responsibility for audits of federally assisted programs rests with recipient organizations. * * * Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies". However, the Missions we audited were not making the most effective use of audits prepared or contracted by recipient organizations. In reviewing recipient audit reports we found problems in three areas: (1) 30 percent of the reports were not on file in the Missions and had to be requested from the recipient organizations themselves, (2) 89 percent of the reports did not meet established standards, and (3) in 41 percent of the reports which included significant recommendations the Missions had not followed up on significant recommendations. These problems existed because the Missions had not provided sufficient guidance to recipient organizations and because the Missions needed to strengthen their own procedures. As a result, the Missions were not always using recipient audit reports effectively to detect and correct financial management problems.

Recommendation No. 2

We recommend that the Assistant Administrator for Latin America and the Caribbean provide guidance to the missions in the region directing them to:

- a. instruct recipient organizations to submit copies of all audit reports to A.I.D.,
- b. inform recipient organizations of the requirement for compliance with U.S. General Accounting Office auditing standards and policy issued by the Regional Inspector General for Audit/Tegucigalpa,
- c. adopt internal procedures for ensuring compliance with General Accounting Office standards and policy issued by the Regional Inspector General for Audit/Tegucigalpa, and
- d. adopt internal procedures for following up on significant recommendations in recipient audit reports.

Discussion

Office of Management and Budget Circular No. A-73, revised June 20, 1983, states that "Primary responsibility for audits of federally assisted programs rests with recipient organizations." The Missions we audited were not making the most effective use of recipient audit reports. The sections below discuss recipient audit reports which were not on file in the Missions, reports which did not meet

established standards, and recommendations which were not followed up by the Missions.

Reports Were Not on File

We believe that any recipient audit report can be an important source of information and should therefore be reviewed and kept on file by A.I.D.

We identified 54 audit reports prepared or contracted by organizations receiving A.I.D. assistance. Thirty-eight of the recipient audit reports we identified (70 percent) were on file in the Missions while 16 (30 percent) were not on file and had to be requested from the recipient organizations themselves.

These reports were not on file because the Missions had not instructed recipient organizations to submit copies of audit reports. Also, in some cases, Missions had obtained recipient audit reports and subsequently misplaced them.

When A.I.D. missions do not obtain recipient audit reports and keep them on file, it is difficult for the missions to use the reports to verify that A.I.D. funds are properly accounted for and used for authorized purposes.

Reports Did Not Meet Standards

Office of Management and Budget Circular No. A-73 states that "Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies."

The Inspector General Act of 1978 makes Inspectors General responsible for providing policy direction for audits of their agencies. The A.I.D. Inspector General has delegated this responsibility for the Latin America and Caribbean Bureau to the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T). RIG/A/T's policy on recipient audits was communicated in Tegucigalpa 21183, dated December 23, 1987. The policy states, in part:

*** * *** [H]ost government audits or host government contracted audits that either (1) do not certify an accountability for A.I.D. funds or (2) do not meet the basic audit standards of the U.S. Comptroller General are inadequate for A.I.D. audit purposes and do not meet the requirements for audits in project agreements.

This policy is consistent with A.I.D. Payment Verification Policy Statement No. 6, which requires A.I.D. missions to evaluate the adequacy of host government audit coverage.

We reviewed 36 recipient audit reports which were required by audit provisions in A.I.D. agreements and were accepted by Missions as meeting those requirements. Only 4 (11 percent) of the reports met the standards discussed above. The specific deficiencies in the other reports are discussed below.

Fifty-eight percent of the reports did not certify an accountability for A.I.D. funds. That is, the auditors did not express an opinion on financial statements showing specifically how A.I.D. funds were used. Thirty-six percent of the reports did not include the results of the auditors' internal control review, as required by General Accounting Office standards. Sixty-four percent of the reports did not provide positive assurance on compliance, and 78 percent did not provide negative assurance on compliance. (Positive assurance is a statement that, for the items tested by the auditors, the auditee either did or did not comply with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditors' attention that would indicate that untested items were not in compliance with applicable laws and regulations.)

The reports did not meet established standards for three primary reasons: (1) Missions had not communicated the standards to recipient organizations, (2) Missions did not review scopes of work for audits covering A.I.D. funds, and (3) Missions did not review audit reports to ensure that they met the standards. Also, some Mission officials were confused about the applicability of General Accounting Office standards and RIG/A/T policy to recipient audits. This should not be a problem in the future since the Latin America and Caribbean Bureau Controller has agreed that these standards apply to recipient audits covering A.I.D. funds.

Compliance with General Accounting Office standards and RIG/A/T policy is required to provide adequate assurance of accountability for A.I.D. funds. These requirements help ensure full disclosure of any financial management problems that may exist.

Missions Did Not Follow Up on Recommendations

When recipient audit reports include recommendations concerning significant financial management problems, it would be prudent for missions to ensure that the problems are corrected.

We identified 17 recipient audit reports that included significant recommendations. The Missions had followed up on the recommendations in 10 of these reports (59 percent). In the other 7 reports (41 percent), the recommendations which had not been followed up dealt with problems such as the following:

- bank reconciliations were not approved by a supervisory official,

- checks used to draw A.I.D. funds from a bank were not prenumbered,
- A.I.D. funds were not kept in separate bank accounts,
- grantees were not withholding income taxes from employees' salaries as required by local law, and
- one grantee had only informal accounting records.

None of the Missions we audited had procedures or systems for following up on significant recommendations in recipient audit reports. Also, officials in three Missions said that they could not follow up more closely on recipient audit report recommendations because of existing workload and staffing constraints. When missions do not follow up on significant recommendations, serious problems may not be corrected.

In summary, Missions were not making the most effective use of recipient audit reports. The Assistant Administrator for Latin America and the Caribbean should direct missions to establish procedures to ensure that: (1) the missions receive recipient audit reports and keep them on file, (2) recipient audit reports meet established standards, and (3) significant recommendations in these reports are followed up.

Management Comments

The Latin American Bureau agreed with this finding and recommendation. The Bureau stated that it would provide guidance to its missions and to indigenous organizations receiving A.I.D. assistance. The Bureau also pointed out that U.S. accounting firms are already required to follow U.S. General Accounting Office standards when auditing Federal assistance programs. USAID/Guatemala agreed with the finding and recommendation. USAID/El Salvador expressed some disagreement with the recommendation but believed that it had substantially complied with the recommendation anyway.

Office of Inspector General Comments

Recommendation No. 2 is resolved and may be closed when guidance has been issued to implement the recommendation.

3. Missions Needed To Request Final Audits When Appropriate

A.I.D. Contract Information Bulletin No. 87-5, dated January 14, 1987, requires missions to establish closeout procedures and request final audits when appropriate. Missions had requested final audits for only 14 percent of the cost reimbursement contracts, grants, and cooperative agreements over \$500,000 which had ended since this guidance was issued. Some of the Missions we audited had not focused attention on closeout requirements, and five of the six Missions had not developed closeout procedures. Final audits must be requested when appropriate to ensure that A.I.D. funds are used only for reasonable and necessary costs.

Recommendation No. 3

We recommend that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish closeout procedures in accordance with A.I.D. Contract Information Bulletin 87-5, specifying when final audits should be requested.

Discussion

A.I.D. Contract Information Bulletin No. 87-5, dated January 14, 1987, requires A.I.D. missions to establish formal closeout procedures for contracts, grants, and cooperative agreements. The sample procedures attached to the bulletin require final audits of cost reimbursement contracts, grants, and cooperative agreements over \$500,000.

In the Missions we audited, 14 contracts, grants, and cooperative agreements over \$500,000 had been completed since this guidance was issued. The Missions had requested final audits of only 2 of the contracts and agreements (14 percent). Responsible personnel in some of the Missions had not focused attention on closeout requirements, and five of the six Missions lacked closeout procedures. The sixth Mission had formalized its closeout procedures in a Mission Order but the Mission Order did not specify when final audits should be requested.

Final audits are an important part of A.I.D.'s system for ensuring that it pays only reasonable and necessary costs under contracts and cooperative agreements. Therefore, the Assistant Administrator for Latin America and the Caribbean should direct missions to establish closeout procedures specifying when final audits should be requested.

Management Comments

The Latin America and Caribbean Bureau stated that it did not believe in issuing guidance to remind missions to follow guidance. However, the Bureau stated that it would issue guidance reminding missions of their responsibilities

under Contract Information Bulletin No. 87-5. USAID/Guatemala and USAID/El Salvador both agreed with the recommendation.

Office of Inspector General Comments

Recommendation No. 3 is resolved and may be closed when corrective action has been implemented.

4. Standard Refund Provision for Agreements with Nongovernmental Organizations Should Be Revised

Audits sometimes show that recipient organizations have used A.I.D. funds for unauthorized purposes or cannot account for them. Depending on the circumstances, if A.I.D. wishes to seek refunds in the latter situation it may not have a firm contractual basis for doing so. This is because the standard refund provision used in agreements with nongovernmental organizations does not clearly establish A.I.D.'s right to recover undocumented expenditures. As a result, A.I.D. may not be able to obtain refunds when available documentation does not clearly show how A.I.D. funds were used.

Recommendation No. 4

We recommend that the Assistant to the Administrator for Management Services revise the standard refund provision for nongovernmental organizations to better protect A.I.D.'s right to obtain refunds when expenditures of A.I.D. funds are not adequately documented.

Discussion

Audits sometimes show that recipient organizations have spent A.I.D. funds for unauthorized purposes or cannot demonstrate to A.I.D.'s satisfaction that funds were used for authorized purposes. Depending on the circumstances, A.I.D. may seek refunds in either case. However, A.I.D. may not have a firm contractual basis for seeking refunds when nongovernmental organizations have not adequately documented expenditures of A.I.D. funds. This is because the standard refund provision used in agreements with nongovernmental organizations does not clearly establish A.I.D.'s right to recover undocumented expenditures. The refund provision in use with both U.S. and non-U.S. nongovernmental organizations provides that:

If, at any time during the life of the grant, or as a result of final audit, it is determined by A.I.D. that funds it provided under this grant have been expended for purposes not in accordance with the terms of the grant, the grantee shall refund such amount to A.I.D.

In order to obtain a refund from a nongovernmental organization, then, A.I.D. must be able to determine for what purposes its funds were used. This could be impossible when documentation on expenditures is inadequate or nonexistent.

A.I.D.'s interests would be better protected if the standard refund provision were revised to include language similar to the following:

If, at any time from the effective date of the grant until three years after the termination date, or as a result of a final audit, it is

determined by A.I.D. that grant funds were expended for purposes not in accordance with the terms of the grant, the grantee shall refund such amount to A.I.D. Any expenditure of grant funds not supported by adequate documentation will be disallowed and a refund of such amount may be sought by A.I.D.

The Assistant to the Administrator for Management Services should revise the standard refund provision to better protect A.I.D.'s right to obtain refunds when expenditures of A.I.D. funds are not adequately documented.

Management Comments

The Chief of the Policy Branch of the Procurement Planning, Policy and Evaluation Staff responded to the draft audit report on behalf of the Deputy Assistant to the Administrator for Management Services and the Procurement Planning, Policy and Evaluation Staff. She believed that the refund provision should be revised although she thought that the present refund provision would in all probability adequately protect A.I.D.'s interests.

Office of Inspector General Comments

Recommendation No. 4 is resolved and may be closed when the standard refund provision for nongovernmental organizations has been revised.

B. Compliance and Internal Controls

Compliance

The compliance tests performed included reviews of applicable guidance, project agreements, correspondence, and financial records, as well as interviews with responsible officials in the six Missions. The tests covered: all appropriated dollar project agreements active as of October 31, 1988 except for three small USAID/Guatemala projects and all cost reimbursement contracts, grants, and cooperative agreements completed between January 14, 1987 and October 31, 1988. The compliance tests also covered a sample of local currency projects as discussed in the audit objectives and scope section beginning on page 1 of this report.

Tests were performed to determine whether:

- project papers evaluated the need for audit coverage of projects,
- project agreements budgeted funds for audit where appropriate and included required audit provisions,
- required audits were actually performed,
- audit reports met U.S. General Accounting Office auditing standards and included opinions on financial statements showing specifically how A.I.D. funds were used,
- the Missions had copies of all audit reports and had ensured that significant recommendations were implemented, and
- the Missions had reasonable assurance that Public Law 480, Section 416, and Economic Support Fund local currency projects would be audited.

The compliance tests disclosed several instances of noncompliance with audit requirements for appropriated dollar projects. First, 38 percent of the audits required by A.I.D. agreements were not performed (Finding 1). Second, the Missions were not making fully effective use of recipient audit reports as required by Office of Management and Budget Circular No. A-73 and other guidance (Finding 2). Third, in 86 percent of the cases reviewed, the Missions had not requested final audits when necessary and required by A.I.D. Contract Information Bulletin No. 87-5 (finding No. 3). Fourth, 27 percent of the project agreements reviewed did not budget audit funds when appropriate, as required by A.I.D.'s Payment Verification Policy Statement No. 6 (see "Other Pertinent Matter" section, page 17). Finally our compliance tests showed that one Mission was not in compliance with A.I.D.'s Supplemental Guidance on Programming Local Currency since none of the projects financed with Public Law 480 Title III

and Economic Support Fund local currency had been audited. However, the Mission planned to ask the Inspector General's Office to supervise a non-Federal audit of these programs.

Other than the conditions cited, tested items were in compliance with applicable laws and regulations. Nothing came to our attention to indicate that untested items were not in compliance with applicable laws and regulations.

Internal Controls

Our review of internal controls covered the general and specific controls employed by missions to ensure that audit requirements are met. The general controls consisted of: (1) written procedures setting forth the missions' audit responsibilities and (2) assignment of specific personnel to carry out these responsibilities. The specific controls consisted of (1) listings showing the extent and type of audit coverage of the missions' portfolios and (2) tracking systems used to determine the status of outstanding audit recommendations. Certain controls were absent in some of the six Missions reviewed.

To gain an understanding of the Missions' internal control systems, Mission directives were reviewed and management officials were interviewed. To test the effectiveness of the control systems, project documentation was reviewed and project officers were interviewed.

The internal control review disclosed four significant weaknesses. First, some Missions lacked formal monitoring systems to ensure that audits required by A.I.D. project agreements were actually performed (Finding 1). Second, the Missions had neither provided sufficient audit guidance to recipient organizations nor adopted internal procedures for making the most effective use of recipient audit reports (Finding 2). Third, most Missions had not developed closeout procedures for contracts, grants, and cooperative agreements (Finding 3). Fourth, the standard refund provisions used in agreements with nongovernmental organizations do not adequately protect the Agency's right to seek refunds for undocumented uses of A.I.D. funds (Finding 4).

C. Other Pertinent Matter

A.I.D. Payment Verification Policy Statement No. 6, which became effective January 1, 1984, requires that project funds be budgeted for audit unless adequate host country audit coverage is reasonably assured or audits are not warranted. The Assistant Administrator for Latin America and the Caribbean reiterated this requirement in a cable sent to missions on August 20, 1987. Of 67 government-to-government agreements which obligated funds after January 1, 1984, only 49 (73 percent) budgeted audit funds when appropriate. When project funds are not budgeted for audit, necessary audits may not be performed. In fact, 17 of the 18 agreements which did not include audit funding either had not been audited or had received inadequate audit coverage by the host government. Since missions in the region have twice received guidance on budgeting audit funds, we are not making a formal recommendation. However, both the Latin America and Caribbean Bureau and the missions in the region should continue to focus attention on this issue until compliance is achieved.

**AUDIT OF VERIFICATION OF ACCOUNTABILITY
FOR DOLLARS AND LOCAL CURRENCY
IN SELECTED MISSIONS IN THE
LATIN AMERICA AND CARIBBEAN REGION**

PART III - APPENDICES

ACTION: RIG-3 INFO: AMB DCM/5

VZCZCTG0238
OO RUEHTG
DF RUEHC #0080/01 0642110
ZNR UUUUU ZZE
O 052108Z MAR 90
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGAPLA IMMEDIATE 3795
BT
UNCLAS STATE 070080

05-MAR-90 TOR: 21:17
CN: 49167
CHRG: AID
DIST: RIG
ADD:

AIDAC FOR RIG/A/T

E.O. 12356: N/A

TAGS:

SUBJECT: DRAFT AUDIT REPORT ON VERIFICATION OF
ACCOUNTABILITY FOR DOLLARS AND LOCAL CURRENCY IN
SELECTED MISSIONS IN THE LATIN AMERICA AND CARIBBEAN
REGION

REFS: (A) 87 STATE 259356 (B) 87 STATE 250606
(C) YOUR ROLE IN THE ACCOUNTABILITY PROCESS BOOKLET
CONTAINING GUIDELINES NO. 1 THROUGH NO. 6 COVERING
FINANCIAL MANAGEMENT AND AUDIT RESPONSIBILITIES OF
RECIPIENTS ISSUED BY THE LAC BUREAU SEPTEMBER, 1989.

1. SUBJECT DRAFT AUDIT REPORT DATED JANUARY 24, 1990
WAS RECEIVED BY THE LAC BUREAU ON FEBRUARY 6, 1990.
THIS IS THE FIRST TIME THE REPORT OR ITS FINDINGS HAVE
BEEN PRESENTED TO THE BUREAU FORMALLY OR INFORMALLY. WE
WILL TRY TO BE AS COMPLETE AS POSSIBLE BUT WE HOPE YOU
REALIZE THAT WITHOUT DRAFT RAFS AND ANEXIT CONFERENCE WE
ARE AT A DISADVANTAGE. BUREAU COMMENTS FOLLOW:

2. GENERAL COMMENTS:

WE AGREE WITH THE GENERAL THEME OF THE REPORT BUT ARE
CONCERNED THAT NOT ENOUGH BACKGROUND IS PROVIDED TO
REFLECT EITHER THE COMPLEXITY OF THE ISSUE OR THE
PROGRESS MADE IN IMPROVING AUDIT COVERAGE IN LAC. FOR
EXAMPLE, AS REGARDS THE RECOMMENDATION TO ISSUE GUIDANCE
REGARDING THE NEED TO BUDGET PROJECT FUNDS FOR AUDIT,
(PAGES IV, 7, 8, ETC.- RECOMMENDATION NO. 1) LAC DID
ISSUE AUDIT GUIDANCE TO THE MISSIONS IN AUGUST 1987
(REFTEL A DATED 8/20/87) WHICH WAS DISCUSSED AND CLEARED
(IN SUBSTANCE) BY THE DEPUTY INSPECTOR GENERAL FOR AUDIT
(A/IG).

INITIAL BUREAU GUIDANCE ON UTILIZATION OF PD AND S (REF
B DATED 8/13/87) AND SUBSEQUENT AGENCY GUIDANCE HAVE
ALLOWED THE USE OF PD AND S FUNDS FOR AUDIT WHEN FUNDS
WERE NOT BUDGETED IN THE PROJECT OR FOR ACTIVITIES SUCH
AS PL 490, HIG, ETC.

WE AGREE WITH THE NEED FOR THE MISSIONS TO ESTABLISH

FORMAL AUDIT TRACKING SYSTEMS TO ENSURE THAT THE AUDIT PROVISIONS OF AGREEMENTS AND PAYMENT VERIFICATION POLICY STATEMENT NO. 6 ARE COMPLIED WITH. THIS IS NEXT STEP IN INSTITUTIONALIZING THE AUDIT FUNCTION IN AID PROJECTS. THE BUREAU WILL ISSUE GUIDANCE ON THIS IN THE NEAR FUTURE.

THE REPORT DOES NOT RECOGNIZE OR EVEN MENTION THE ADDITIONAL GUIDANCE ISSUED BY THE BUREAU ON ACCOUNTING AND AUDITING STANDARDS IN SEPTEMBER 1989 TITLED QUOTE YOUR ROLE IN THE ACCOUNTABILITY PROCESS: ACCOUNTABILITY, FINANCIAL MANAGEMENT AND AUDIT OF AID FURNISHED RESOURCES IN BENEFICIARY COUNTRIES UNQUOTE WHICH WAS REVIEWED AND AGREED TO BY RIG/A/T AND IG/A. THIS PUBLICATION WAS ISSUED IN SPANISH AND ENGLISH AND SENT TO MISSION DIRECTORS FOR DISTRIBUTION TO GRANTEEES IN NOVEMBER 1989. ARTICLES ON THE GUIDELINES HAVE BEEN PUBLICIZED IN TWO EDITIONS OF THE LAC/RFMIP NEWSLETTER WHICH IS DISTRIBUTED THROUGHOUT THE REGION. THE COMPTROLLER GENERAL OF THE UNITED STATES REQUESTED 15 COPIES FOR DISTRIBUTION WITHIN GAO. PAGES 6 THROUGH 11 OF THIS BOOKLET SET OUT GUIDELINE NO. 6 REQUIRING THE OBSERVANCE OF GAO STANDARDS IN AUDITING AID APPROPRIATED FUNDS AND EXPLAIN THIS GUIDELINE IN DETAIL. IN ADDITION, AUDITS OF GOVERNMENT-OWNED LOCAL CURRENCIES BY GOVERNMENT AUDITORS OR FIRMS ARE DISCUSSED, THE STANDARDS TO GOVERN THEM IDENTIFIED AND THE MINIMUM ACCEPTABLE CONDITIONS ESTABLISHED WHERE LAC WILL ACCEPT AUDITS MADE BY GOVERNMENT AUDIT INSTITUTIONS ARE CLEARLY IDENTIFIED.

THE BUREAU ARRANGED FOR A TRANSLATION OF THE 1988 GAO STANDARDS (YELLOW BOOK) INTO SPANISH AND DISTRIBUTED IT TO THE IG AND THE MISSIONS. THIS WAS NOT REQUIRED, BUT WE FELT THAT IT WAS NECESSARY TO ASSURE THAT LATIN AMERICAN AUDITORS HAVE ACCESS TO THE GAO STANDARDS IN THEIR OWN LANGUAGE. THE DECEMBER, 1989 ISSUE OF THE NEWSLETTER OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE) ON PAGE 8 ANNOUNCES, APPARENTLY, IN ERROR, THAT AID OIG PARTICIPATED IN THE PREPARATION OF THE SPANISH TRANSLATION, WHEREAS IN ACTUALITY THIS TRANSLATION WAS ARRANGED BY THE LAC BUREAU CONTROLLER'S OFFICE.

GUIDELINE NO. 6 NOT ONLY REQUIRES THAT FINAL AUDIT REPORTS BE SUBMITTED DIRECTLY TO AID, IT ESTABLISHES A THREE MONTH TIME FRAME FOR SUBMISSION AND REQUIRES THE SUBMISSION AS WELL OF INTERIM REPORTS IN CASE OF SIGNIFICANT FINDINGS DEVELOPED DURING THE YEAR. THEREFORE WE BELIEVE THAT GUIDELINE NO. 6 ALREADY ISSUED, GOES FAR BEYOND THE CONTENT PROPOSED IN RECOMMENDATION NO. 3, PARAGRAPHS A. AND B. THESE

PARAGRAPHS ARE UNNECESSARY SINCE THEY HAVE BEEN MORE THAN COMPLIED WITH.

THE ISSUANCE OF THE SIX LAC BUREAU GUIDELINES COMPLIED WITH A LONGSTANDING GAC RECOMMENDATION.

THE BUREAU AGREES THAT FINAL AUDITS OF CONTRACTS, GRANTS, AND COOPERATIVE AGREEMENTS ARE REQUIRED AND SHOULD BE DONE. WE HAVE NO REASON TO DOUBT THE STATISTICS IN THE REPORT THAT ONLY FOURTEEN PERCENT HAVE BEEN REQUESTED. THE BUREAU WILL REQUIRE MISSIONS TO FORWARD TO RIC REQUESTS FOR CLOSE OUT AUDITS FOR ALL CONTRACTS, GRANTS, AND COOPERATIVE AGREEMENTS.

3. SPECIFIC COMMENTS BY RECOMMENDATION

RECOMMENDATION NO. 1.

THE BUREAU DID ISSUE GUIDANCE IN 1987 REQUIRING THAT ALL PROJECTS BUDGET FUNDS FOR AUDIT (REF A). IN PARA 5 OF REF (A) MISSIONS WERE PERMITTED TO USE PD AND S FUNDS TO FUND AUDITS IF PROJECTS DID NOT HAVE FUNDS BUDGETED. THE BUREAU COMPLIED WITH THE RECOMMENDATION IN 1987. MISSIONS ARE AUTHORIZED TO USE FUNDS FROM THE PROJECT OR PD AND S TO FINANCE A NON-FEDERAL AUDIT. THIS GUIDANCE HAS SINCE BEEN INCORPORATED INTO HANDBOOK 3 (HB 3, PARA 1D3(A) AND IS AGENCY POLICY. ANY PROJECT OBLIGATED PRIOR TO 1/1/84, THAT DID NOT BUDGET FUNDS FOR AUDIT IS AUTHORIZED TO USE PD AND S FUNDS. THERE IS NO ADDITIONAL

GUIDANCE REQUIRED. THE FINDINGS NEED TO BE CORRECTED AND THE RECOMMENDATION SHOULD BE WITHDRAWN.

RECOMMENDATION NO 2.

THE BUREAU ACCEPTS THE RECOMMENDATION AND AGREES TO ISSUE GUIDANCE. WE REQUEST THAT RECOMMENDATION 3C, 3D, AND 4 BE INCORPORATED INTO THIS RECOMMENDATION SO THAT ALL RECOMMENDATIONS RELATING TO LAC GUIDANCE TO THE MISSIONS FOR INTERNAL AID OPERATIONS WILL BE TOGETHER.

RECOMMENDATION NO. 3.

THE BUREAU WILL REVISE THE LANGUAGE OF OUR STANDARD PIL TO INCORPORATE THE FIRST THREE PARTS OF THIS RECOMMENDATION FOR ALL NON-U.S. ORGANIZATIONS BY INCORPORATING THE BOOKLET (REF C IN ALL PILS AND GRANTS ISSUED TO INDIGENOUS ORGANIZATIONS. THIS CHANGE WILL BE EFFECTIVE AFTER ISSUANCE OF THE BUREAU GUIDANCE.

U.S. PRIVATE VOLUNTARY ORGANIZATIONS ARE ALREADY REQUIRED TO SUBMIT A COPY OF THEIR ANNUAL AUDIT TO THE AID IG AND OBSERVE APPROPRIATE ACCOUNTING PRINCIPLES.. U.S. CPA FIRMS ARE ALREADY REQUIRED TO USE GAO STANDARDS

RECOMMENDATION 3C AND 3D SHOULD BE INCORPORATED INTO RECOMMENDATION NO. 2, AS MENTIONED ABOVE, SINCE THIS ISSUE SHOULD BE ADDRESSED IN THE BUREAU INTERNAL GUIDANCE TO THE FIELD.

THE BUREAU IN ITS GUIDANCE TO THE FIELD DOES NOT REQUIRE GAO STANDARDS TO BE APPLIED TO HOST GOVERNMENT OWNED AND MANAGED LOCAL CURRENCY. THIS WAS CLEARLY NOTED IN OUR PAMPHLET AND WAS DISCUSSED WITH A/IG. AID CANNOT REQUIRE A SOVEREIGN GOVERNMENT TO APPLY U.S. GAO STANDARDS TO ITS OWN FUNDS. AID DOES REQUIRE THE USE OF GAO STANDARDS ON ANY AUDITS OF APPROPRIATED DOLLAR ACTIVITIES.

RECOMMENDATION NO. 4

WE DO NOT BELIEVE IT APPROPRIATE TO ISSUE GUIDANCE TO REMIND MISSIONS TO FOLLOW GUIDANCE. HOWEVER, WE WILL REMIND MISSIONS OF THEIR RESPONSIBILITIES UNDER A.I.D. CONTRACT INFORMATION BULLETIN 87-5 IN THE GUIDANCE THAT WE SEND TO THE FIELD TO COMPLY WITH RECOMMENDATION NO. 2.

RECOMMENDATION NO. 5

AA/M ACTION.

4. CONCLUSIONS:

WE SEE THREE RECOMMENDATIONS IN THE AUDIT REPORT:

- NO 1. SHOULD BE DELETED.
- NO 2. SHOULD BE REVISED TO READ:

WE RECOMMEND THAT THE ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN DIRECT THE MISSIONS IN THE REGION TO ESTABLISH FORMAL MONITORING SYSTEMS TO ENSURE THAT:

- A. AUDITS REQUIRED BY A.I.D. AGREEMENTS ARE ACTUALLY PERFORMED.
- B. SIGNIFICANT RECOMMENDATIONS IN RECIPIENT AUDIT REPORTS ARE FOLLOWED UP, AND
- C. A.I.D. CONTRACT INFORMATION BULLETIN 87-5 REQUIREMENTS ARE MET.

NO. 3 WOULD BE:

WE RECOMMEND THAT THE ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN PROVIDE FURTHER GUIDANCE TO THE MISSIONS IN THE REGION BY PROVIDING LANGUAGE TO BE USED IN THE INITIAL PROJECT IMPLEMENTATION LETTER AND GRANTS TO NON-U.S. ORGANIZATIONS AS FOLLOWS:

A. REQUIRE RECIPIENT ORGANIZATIONS TO BE AWARE OF AND OBSERVE THE MINIMUM REQUIREMENTS FOR FINANCIAL MANAGEMENT AND AUDIT SET OUT IN GUIDELINES NO. 1 THROUGH NO. 6 OF THE BOOKLET YOUR ROLE IN THE ACCOUNTABILITY PROCESS.

B. REQUIRE RECIPIENT ORGANIZATIONS TO NOTIFY USAID AND RIG/A/ OF THE NAMES AND ADDRESSES OF THEIR EXTERNAL AUDITORS AT THE BEGINNING OF EACH FISCAL YEAR SO THAT THE USAID MAY FORMALLY NOTIFY SUCH AUDITORS OF THEIR RESPONSIBILITIES UNDER GUIDELINE NO. 6.

RECOMMENDATION NO 4.

COMBINED INTO RECOMMENDATION NO. 2 ABOVE

RECOMMENDATION NO. 5 AA/M ACTION.

5. OBJECTIVE AND BALANCED REPORTING - IN COMPLIANCE WITH GAO PERFORMANCE AUDIT REPORTING STANDARDS WE REQUEST THAT THE FINAA

IG REPORT INCLUDE REFERENCE TO THE GUIDANCE WHICH HAS BEEN ISSUED BY THE LAC BUREAU (REFS A, B AND C) WHICH WAS NOT MENTIONED IN THE DRAFT REPORT AND AGENCY GUIDANCE IN HB 3 ALLOWING THE USE OF PD AND S FUNDS FOR AUDIT. (YELLOW BOOK PAGE 7-11, PARAGRAPHS 48 AND 49 AND PAGE 7-13, PARAGRAPHS 51-53). BAKER
BT
#0080

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UNCLASSIFIED

STATE 070080/03

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

MAR 1 1990

MEMORANDUM

TO: RIG/A/T, Mr. Coinage Gothard, Jr.

FROM: MS/PPE, Kathleen O'Hara

SUBJECT: Draft Audit Report on Verification of Accountability
for Dollars and Local Currency in Selected Missions in
the Latin American and Caribbean Region

I am responding to the subject draft audit on behalf of the Deputy Assistant to the Administrator for Management Services (DAA/MS) and the Procurement Planning, Policy and Evaluation Staff (MS/PPE).

With regard to recommendation no. 5, while I agree with one of the Mission Directors who commented that the present refund provision, in all probability, would adequately protect AID's interests, the audit raises a valid point about the technical inadequacy of the language. Revising the provision to more closely resemble coverage in OMB circular A-110 would be appropriate. A-110 provides in part in Attachment K - "In the event a final audit has not been performed prior to the closeout of the grant or other agreement, the Federal sponsoring agency shall retain the right to recover an appropriate amount after fully considering the recommendations on disallowed costs resulting from the final audit."

24'

UNITED STATES GOVERNMENT

memorandum

DATE: February 20, 1990

REPLY TO
ATTN OF: Richard K. Archi, D/DIR, USAID/ES 

SUBJECT: Verification of Accountability Draft Audit Report
Issued to AID/W

TO: Mr. Coinage Gothard, RIG/A/T

The following represents this Mission's comments to the subject draft audit report and the five related recommendations.

Recommendation No. 1:

"We recommend that the Assistant Administrator for Latin America and the Caribbean issue guidance to Missions in the region concerning the need to budget project funds for audit. This guidance should explicitly address project agreements which began before January 1, 1984 but subsequently obligate additional funds".

This Mission has been budgeting funds for audits and evaluations for years and will continue to do so.

Recommendation No. 2:

"We recommend that the Assistant Administrator for Latin America and the Caribbean direct Missions in the region to establish formal monitoring systems to ensure that audits required by A.I.D. agreements are actually performed".

This Mission already has such a system. Annually, every PVO grantee is contacted and audited financial statements are requested of them. Follow-up on their compliance occurs one month after the initial request. For these and other activities the Mission has developed a schedule of all active projects and the corresponding audit coverage on them. From this schedule weaknesses in audit coverage are identified and audits are requested.

Recommendation No. 3:

"We recommend that the Assistant Administrator for Latin America and the Caribbean provide guidance to the Missions in the region directing them to:

- a. Instruct recipient organizations to submit copies of all audit reports to A.I.D.,
- b. inform recipient organizations of the requirement for compliance with U.S. General Accounting Office auditing standards and policy issued by the Regional Inspector General for Audit/Tegucigalpa,
- c. adopt internal procedures for ensuring compliance with General Accounting Office standards and policy issued by the Regional Inspector for Audit/Tegucigalpa, and
- d. adopt internal procedures for following up on significant recommendations in recipient audit reports".

Mission Response:

- a. For 1988 the Mission received 20 out of 21 audit reports for recipient organizations with annual audit clauses in their respective agreements. This level of compliance demonstrates that this area has not been a problem.
- b. This recommendation was also made at the Mission level. We still feel that the American Institute of Certified Public Accountant's (AICPA's) audit standards as they are currently being used better meet the needs of aid recipients. They are more comprehensive and more widely accepted than GAO standards. In fact, AICPA statement on auditing standard No. 63 (Compliance auditing applicable to governmental entities and other recipients of governmental financial assistance) requires compliance with GAO standards. SAS 63 became effective on 1/1/90 and a copy of it was given to your audit team. The Mission still believes that this issue is a policy issue for the agency and requests that the Mission's specific recommendation be closed pending resolution of this overall recommendation.

- c. The Mission ensures that financial statements audited under appropriate standards are received and read. When recommendations are presented in these reports the Mission pursues their closure. The Mission is not equipped, however, to perform quality control on the auditing standards employed by the various CPA firms.
- d. The report states that the Mission had no mechanism to follow-up on audit findings but omitted that all 20 audit reports received in 1988 had unqualified opinions. The Mission believes that there were not any significant findings within its purview to follow up on.

Recommendation No. 4:

"We recommend that the Assistant Administrator for Latin America and the Caribbean direct Missions in the region to establish closeout procedures in accordance with A.I.D. Contract Information Bulletin 87-5, specifying when final audits should be requested".

The Mission has complied with this recommendation. The revised Mission Operating Manual (MOM) has already been sent to you.

Recommendation No. 5:

"We recommend that the Associate Assistant to the Administrator for Management revise the standard refund provision for non-governmental organizations to better protect A.I.D.'s right to obtain refunds when expenditures of A.I.D. funds are not adequately documented".

The Mission concurs with the one sentence addition proposed in the report and, in practice, the Mission has already sent bills for collection on the basis of inadequate documentation (example: CESAD).

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : Mr. Coinage E. Gothard
RIG/A/T

DATE: February 26, 1990

FROM : Mr. Anthony J. ~~Cauterucci~~
Director, ~~USALD~~/Guatemala

SUBJECT: Draft Audit Report on Verification of Accountability
for Dollars and Local Currency in Selected Missions in
the Latin America and Caribbean Region

Receipt of the subject report is acknowledged. It has been read and reviewed in the Mission. We do not disagree with its content or the recommendations contained therein. We concur in its issuance as drafted.



5010-108

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

EXCERPTS FROM AUDIT GUIDANCE

Excerpts from the Inspector General Act of 1978, as amended on December 29, 1981

Sec. 4.(a) It shall be the duty and responsibility of each Inspector General, with respect to the establishment within which his Office is established -

(1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishment * * *.

(b) In carrying out the responsibilities specified in subsection (a) (1), each Inspector General shall -

(1) comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions;

(2) establish guidelines for determining when it shall be appropriate to use non-Federal auditors; and

(3) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General as described in paragraph (1).

Excerpts from Office of Management and Budget Circular A-73, revised June 20, 1983

Agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether information is reliable; resources have been safeguarded; funds have been expended in a manner consistent with related laws, regulations, and policies; resources have been managed economically and efficiently; and desired program results have been achieved. Audits of Federal organizations, programs, activities and functions, State and local governments (as required by Circular A-102, "Uniform requirements for grants to State and local governments"), and others (as required by Circular A-110, "Uniform requirements for grants to universities, hospitals, and other non-profit organizations") will be made in accordance with the standards issued by the Comptroller General * * *

Primary responsibility for audits of federally assisted programs rests with recipient organizations * * *. Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies. Federal agencies may perform additional audit work building on audit work already performed.

Excerpt from A.I.D.'s Supplemental Guidance on Programming Local Currency, dated October 21, 1987

If A.I.D. should choose to directly associate jointly programmed local currency with host government projects or private sector activities, the Mission should have reasonable assurance that * * * periodic audits of relevant activities will be undertaken.

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	5
<p>We recommend that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish formal monitoring systems to ensure that audits required by A.I.D. agreements are actually performed.</p>	
<u>Recommendation No. 2</u>	7
<p>We recommend that the Assistant Administrator for Latin America and the Caribbean provide guidance to the missions in the region directing them to:</p> <ol style="list-style-type: none">a. instruct recipient organizations to submit copies of all audit reports to A.I.D.,b. inform recipient organizations of the requirement for compliance with U.S. General Accounting Office auditing standards and policy issued by the Regional Inspector General for Audit/Tegucigalpa,c. adopt internal procedures for ensuring compliance with General Accounting Office standards and policy issued by the Regional Inspector General for Audit/Tegucigalpa, andd. adopt internal procedures for following up on significant recommendations in recipient audit reports.	
<u>Recommendation No. 3</u>	11
<p>We recommend that the Assistant Administrator for Latin America and the Caribbean direct missions in the region to establish closeout procedures in accordance with A.I.D. Contract Information Bulletin 87-5, specifying when final audits should be requested.</p>	

Page

Recommendation No. 4

13

We recommend that the Assistant to the Administrator for Management Services revise the standard refund provision for nongovernmental organizations to better protect A.I.D.'s right to obtain refunds when expenditures of A.I.D. funds are not adequately documented.

APPENDIX 4

REPORT DISTRIBUTION

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