

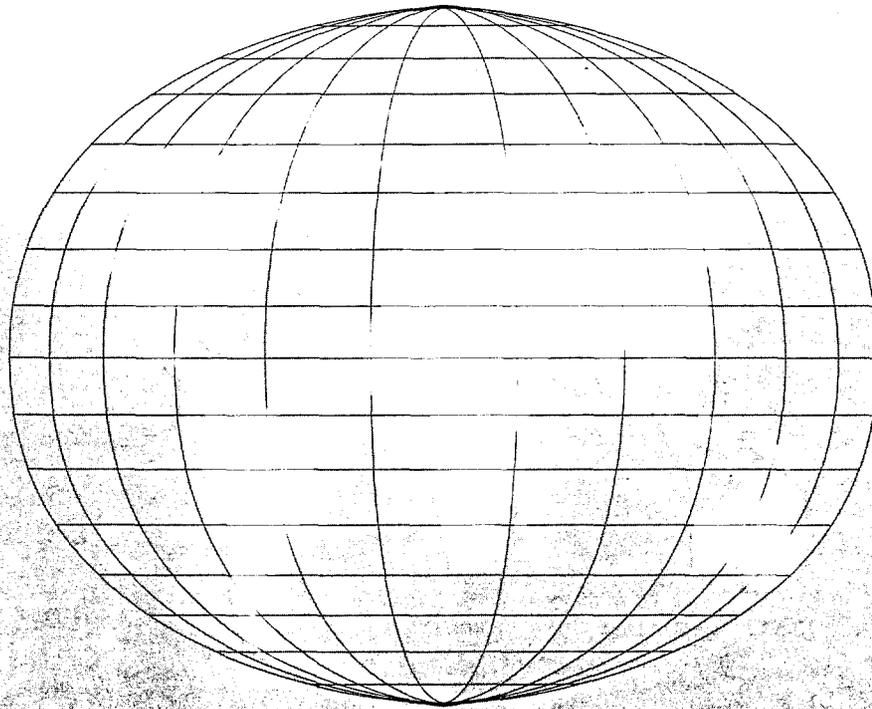
# Report of Audit

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## Audit of USAID/Zimbabwe's Role in Obtaining Audits of its Contracts, Grants, and Cooperative Agreements

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Report No. 4-613-97-004-P  
February 28, 1997



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

**Audit of USAID/Zimbabwe's Role in Obtaining  
Audits of its Contracts, Grants, and Cooperative  
Agreements**

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**REGIONAL INSPECTOR GENERAL/PRETORIA**



# memorandum

*Regional Inspector General  
Pretoria*

**DATE:** February 28, 1997

**TO:** Director, USAID/Zimbabwe, Peter Benedict

**FROM:** *James L. Jarrell for*  
Regional Inspector General/Pretoria, Joseph Farinella

**SUBJECT:** Audit of USAID/Zimbabwe's Role in Obtaining Audits of Its  
Contracts, Grants, and Cooperative Agreements, Report Number  
4-613-97-004-P

This is the final report of the subject audit. We received your comments to our draft and were pleased to note that you concurred with the finding and recommendation. The full text of the comments is included as Appendix No. II to this report.

The report makes one recommendation. Based on your comments, a management decision to implement this recommendation has been made. Please notify the Office of Management Planning and Innovation, Bureau for Management, when final action is completed.

I appreciate the Mission's cooperation and courtesies extended to my staff during the audit.

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## 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 the provisions of contract or grant agreements are complied with; and 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. For example, during 1991 and 1992, the Agency revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations receiving USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994.

Furthermore, in April 1992, USAID issued a General Notice, clearly 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.

These initiatives are of far reaching consequence in preventing recurring 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 provided a status report on these efforts and concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory data bases. The report further stated that the missions had improved audit coverage, although complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities. Also, not all audits were being done according to generally accepted government audit standards, and reports were not always submitted on time.

Given the importance of audits to facilitate accountability of USAID funds, the OIG initiated another Agency-wide audit in July 1996 of USAID management's role in obtaining audit coverage of its contracts, grants and cooperative agreements. USAID/Zimbabwe was included in this review.

Between January 1, 1993, and September 30, 1995, USAID/Zimbabwe disbursed approximately \$21.4 million to 48 recipients. The following table provides a detailed breakdown of these disbursements by type of agreement and by number and type of recipient organizations.

Type of Agreement	U.S.		Non-U.S.		International		Total	
	Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients	
Grants	\$150,736	3	\$4,980,505	14	\$9,421,591	6	\$14,552,832	23
Contracts	\$3,572,268	8	\$2,114,644	14	\$0	0.00	\$5,686,912	22
Coop. Agr.	\$543,844	2	\$0	0.00	\$604,173	1	\$1,148,017	3
	<b>\$4,266,848</b>	<b>13</b>	<b>\$7,095,149</b>	<b>28</b>	<b>\$10,025,764</b>	<b>7</b>	<b>\$21,387,761</b>	<b>48</b>

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### Audit Objective

This audit was performed as part of an Agency-wide audit to answer the following objective:

**Has USAID/Zimbabwe carried out its role in obtaining audits of its contracts, grants, and cooperative agreements?**

The audit scope and methodology are described in Appendix I.

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### Audit Findings

USAID/Zimbabwe carried out its role in obtaining the needed audit coverage of its overseas recipients to verify that USAID funds were used for their intended purposes. Examples of Mission actions to implement an audit management program included:

- issuing a Mission Order to provide guidance to its personnel on audit planning, implementation and follow-up;
- establishing a Management Control Review Committee to play a lead role in monitoring the status of the Mission's audit program and to assure that its audit responsibilities are fully carried out;

- designating an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on recipient-contracted audit recommendations;
- including required audit clauses in its grants and contracts and budgeting funds for audits; and
- maintaining an automated data base system to serve as an inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

In addition, the Mission prepared a list of approved firms of independent public accountants in Zimbabwe along with the names of its non-U.S. grantees and contractors for which these firms had audit responsibilities.

The above actions helped USAID/Zimbabwe to carry out its role in implementing its financial audit program. Nevertheless, to better monitor its audit process the Mission needs to prepare an annual audit management plan, more closely monitor the status of audit recommendations, and require the Management Control Review Committee to document its decisions.

### **Audit Planning**

Chapter 591 of USAID's Automated Directives System requires overseas missions to establish an audit management system and obtain audits of its non-U.S. grantees and contractors. Among other things, missions should establish operational guidance, assign audit management responsibilities, develop an annual audit management plan, and maintain appropriate audit inventory and tracking systems to facilitate audits of awards to non-U.S. recipients in accordance with U.S. government auditing standards. In addition, reports resulting from these audits are to be submitted to the cognizant OIG audit office within 13 months after the recipient's fiscal year-end.

Our analysis of the Mission's financial records showed that eight non-U.S. recipients received \$2.69 million in USAID disbursements during the period January 1, 1993 through September 30, 1995 that triggered thresholds requiring audits. Reports resulting from these audits were to be completed no later than October 31, 1996. Of these eight recipients, audits were completed for seven who received \$2.65 million in USAID disbursements. The remaining recipient who received \$45,000 was not audited because the Mission chose to do a complete financial review of all costs incurred under the grant in lieu of an audit. In this case, the grantee submitted source documents for all costs incurred which the Mission reviewed. Furthermore, this was a one-time grant. As a result, the Mission determined that an independent audit would not be cost beneficial or provide additional accountability of USAID funds.

USAID/Zimbabwe's audit inventory data base tracked all recipients that needed audit coverage, enabling the Mission to identify and follow up with the recipients who were late submitting reports.

Between January 1, 1993, and October 31, 1995, the eight recipient organizations required 10 audit reports. Nine audit reports were received by the Mission for seven recipients. As noted above, the Mission performed a financial review of the other recipient in lieu of an audit. Of the nine reports received, two were issued two and five months beyond their due dates.

Although the Mission monitored its audit inventory and received and/or contracted for audits it did not develop an annual audit management plan (annual plan). Such a plan could have strengthened the mission's ability to assess all its audit needs to ensure complete audit coverage and funding.

USAID/Zimbabwe did not develop an annual plan for fiscal years 1996 or 1997. In addition, newly-assigned personnel responsible for the recipient audit program were unable to locate files or records of an annual plan for prior years.

We could not determine why the responsible audit management officer had not prepared the annual plan for the 1996 fiscal year because he had left the mission prior to our audit field work. However, the current Controller stated that the Mission may have not prepared the annual plan as required because of the limited number of contracts, grants, and cooperative agreements in its audit inventory. Because of the limited number, the audit management officer and project officers most likely believed they could ensure that recipient audits were performed and that Agency audits were contracted for without a formal plan.

However, the recently-arrived Controller (the designated audit management officer) attested to the benefit of such a plan and stated that one will be prepared for the Mission for fiscal year 1997. This plan would provide the Mission with the opportunity to review strategic objective performance requirements, more closely monitor and manage the financial audit program, and help identify performance audit areas the Mission may want to request.

Thus, while the lack of an annual plan did not have an adverse effect on ensuring that the required audits were performed and received by the mission, preparing one has its benefits. As suggested by the Controller, there may be a number of areas within the Mission's program which could benefit from an audit. These areas would be explored in the preparation of an annual plan. Therefore, we and the Mission agree that an annual plan needs to be prepared.

**Recommendation No. 1: We recommend that USAID/Zimbabwe prepare an Audit Management Plan annually.**

### **Audit Recommendation Follow-up**

Mission Order 94-008, dated May 31, 1994, states under Procedures 2.c. that the audit inventory should be used to reflect audits in process and the status of audit recommendations. Chapter 591 of the Automated Directives System (May 1996) assigns liaison duties to the audit management officer to ensure that audit recommendation actions occur in a timely manner.

USAID/Zimbabwe established a data base to track audit recommendations contained in recipient audits issued by the Regional Inspector General. However, the Mission had not used the data base after September 1994 even though a number of recommendations needed follow-up. In addition, the Mission maintained an audit inventory data base which could, with slight modification, be used to monitor recommendation follow-up and provide data for reporting on the status of those recommendations.

Mission staff developed the two data bases, one for recommendations and one for audit inventory. However, the staff did not maintain the recommendation data base because there were relatively few recipient audit reports and most of the information in the reports, except for the status of individual recommendations, was duplicated in the audit inventory data base. So, the Mission did not maintain an on-going system for monitoring recommendation status. It instead manually followed up on recommendations and reported on their status when requested by USAID/Washington or the Office of the Inspector General. Consequently, audit recommendation follow-up was accomplished upon request instead of proactively utilizing automated data to monitor and report on the status of recommendations.

Because the audit recommendation data base was not maintained after September 1994, and the status of recommendations were not maintained in the audit inventory data base, the Mission may not have followed up on recommendations needing action in a timely manner or may not have monitored contractor/grantee performance as closely as warranted. In fact, during the audit fieldwork the Mission received a request from the Africa Bureau to provide the status of one recommendation needing final management action.

Therefore, we believe that the Mission needs to utilize its audit inventory data base to provide the current status of audit recommendations needing follow-up. The Mission provided and we reviewed, its combined recommendation follow-up and audit inventory system. This will allow the Mission to better monitor the status of audit recommendations. In view of the foregoing, we are not making a recommendation in regard to this finding.

### **Management Control Review Committee**

Mission Order 94-008, dated May 31, 1994, states in Section V that the Mission's Management Control Review Committee will meet quarterly to discuss its audit program and provide the Mission Director with a status report after each meeting. In addition, Automated Directives System Chapter 591 designates the Committee as the decision-making body in situations involving audit follow-up impasses between the Regional Inspector General and the office to which action is assigned.

USAID/Zimbabwe's Committee meets on an ad hoc basis, reports verbally and does not document its meetings. The reason the Committee does not document its meetings is because of the informal nature of its meetings. However, with the turnover of staff at USAID Missions, it is important to document decisions and actions that affect the operations of the Mission over time. The lack of documentation of those meetings—whether ad hoc or scheduled—does not allow for verification of decisions made or actions taken by the Committee. Due to the continual rotation of personnel from one post to another, it is important to document decisions of the Committee to provide historical memory.

We did not find that the lack of documented committee decisions had an adverse effect on the Mission's audit management program. However, Mission officials agreed that the decisions of the Committee should be documented whether meetings are of a formal or ad hoc nature and stated that they will do so. Since the Mission has agreed to document future Committee decisions, we are not making a recommendation in regard to this finding.

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## **Management Comments and Our Evaluation**

USAID/Zimbabwe concurs with the findings and recommendation and will prepare an annual audit management plan. In addition, the Mission believes that the audit report is the culmination of extensive cooperation and hard work on the part of both RIG and Mission staff. Appendix II contains the Mission's response in its entirety.

Based on USAID/Zimbabwe's response, a management decision has been reached on Recommendation No. 1.

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## Scope and Methodology

As part of an Agency-wide audit, we audited USAID/Zimbabwe's role in obtaining audit coverage of its non-U.S. contracts, grants and cooperative agreements in accordance with generally accepted government auditing standards.

The audit included an assessment of USAID/Zimbabwe's internal controls over its financial audit program. Specifically, we assessed whether the Mission (1) included audit clauses in its grants and contracts with foreign recipients; (2) budgeted funds for audits; (3) followed up on recipient-contracted audit recommendations; (4) issued guidance for its financial audit program; (5) established an accurate audit inventory, and (6) obtained audits within required time frames. Our threshold level for reporting material exceptions was a five percent error rate.

To accomplish the audit objective, we analyzed USAID/Zimbabwe's response to our audit questionnaire concerning the Mission's audit management program and interviewed those officials tasked with implementing the program. We also reviewed the Mission's audit inventory data base system, copies of contracts, grants, and cooperative agreements relating to the non-U.S. recipients, recipient-contracted audit reports, pertinent correspondence and memoranda.

We identified the audit universe from the Mission's audit inventory data and the automated Mission Accounting and Control System (MACS) data base. We examined all eight non-U.S. recipient agreements (contracts, grants or cooperative agreements) to determine whether appropriate audit clauses were incorporated in the agreements and funds budgeted for audits, and examined the recipient audit reports received by the Mission.

Furthermore, we reviewed USAID/Zimbabwe's internal control assessment reports for fiscal year 1995 to identify any material weaknesses with regard to the Mission's audit management system and obtained written representation from cognizant Mission officials for all essential assertions related to our audit objective.

The field work was conducted at USAID/Zimbabwe located at Harare, Zimbabwe, between October 1 and October 11, 1996. Additional information was collected at our request by USAID/Zimbabwe between December 1996 and February 1997 due to expanded audit requests from the Office of Inspector General's Performance Audit Division to satisfy certain Agency-wide reporting requirements. The additional information was compiled from the MACS data base, agreement files and recipient audit files which we reviewed when field work was conducted.

The audit universe for the period January 1, 1993 through September 30, 1995, was composed of eight non-U.S. recipients that received \$2.69 million in disbursements from USAID, which were required to be audited in accordance with USAID directives.

The audit universe of non-U.S. recipients was obtained from USAID/Zimbabwe's audit inventory data base and the disbursements confirmed from the MACS data base. However, because of the overall purpose of the audit, we did not test the accuracy of the MACS data.

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO ZIMBABWE**

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February 18, 1997

Mr. Joseph Farinella  
Regional Inspector General for Audits  
PO Box 55380  
Arcadia 0007  
Pretoria, South Africa

**Subject: Draft Audit Report - Audit of USAID/Zimbabwe's  
Implementation of the Audit Management and Resolution Program**

Dear Mr. Farinella,

USAID/Zimbabwe concurs with the findings of subject draft audit report. In response to the report's one recommendation, the Mission will prepare an Audit Management Plan for FY 1997.

Full financial accountability through a comprehensive program of audits has been a Mission priority. We recognize the increasing importance of audit as this Mission gradually phases down over the next five years.

Audit planning will mainly focus on recipient and Agency contracted audits of overseas recipients (contracts, grants, and cooperative agreements). We will update our audit inventory database and estimate the number and timing of required audits. We have evaluated the need for performance audits.

In the area of audit follow-up and resolution, USAID/Zimbabwe has no open recommendations, at this time.

In closing, I believe this audit report is the culmination of extensive cooperation and hard work on the part of both RIG and Mission staff over the last five months.

Sincerely,

A handwritten signature in dark ink, appearing to read "P. Benedict", is written over a horizontal line.

Peter Benedict  
Mission Director

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