

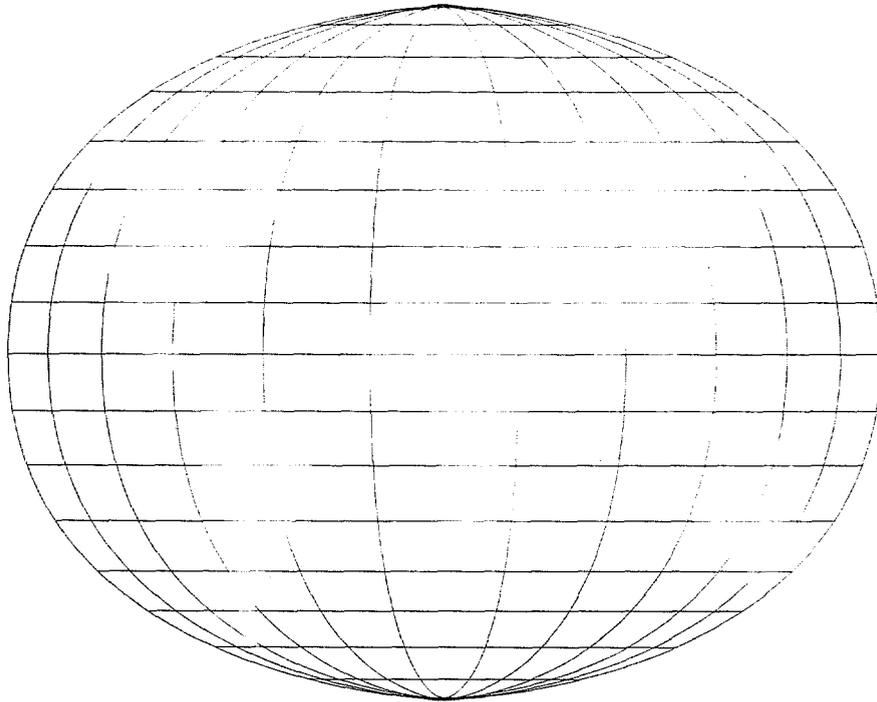
# Report of Audit

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

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Report No. 6-278-97-004-P  
March 10, 1997



**Regional Inspector General for Audit  
Cairo, Egypt  
OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



**UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

CAIRO, EGYPT

March 10, 1997

**MEMORANDUM**

TO: USAID/Jordan Director, Lewis W. Lucke

FROM: RIG/A/C, Lou Mundy *Lou Mundy for*

SUBJECT: Audit of USAID/Jordan's Role in Obtaining Audits of Its Contracts, Grants, and Cooperative Agreements

This is our report on the subject audit. In finalizing the audit report, we carefully considered the Mission's comments on the draft report, which are included in Appendix II. The report contains one recommendation for your action. Based on the information provided in the Mission's comments, we consider that a management decision has been made in response to recommendation number 1 (including parts 1.1, 1.2, and 1.3). When the Mission has completed its planned corrective actions, it should send a closure request to the Office of Management Planning and Innovation.

I appreciate the cooperation and assistance provided to the auditors on this assignment.

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**Background**

In March 1992, USAID established an audit management program to improve audit coverage of its assistance activities in developing countries. Recognizing that financial audits could improve accountability for funds provided to grantees and contractors, the audit management program made USAID missions responsible for:

- establishing a management control review committee to address all management control issues including audit,
- issuing mission-specific guidance on audit responsibilities and procedures,
- including specific audit management responsibilities in employees' performance evaluation reports,
- designating an audit management officer to manage the audit program at the mission level,

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- preparing a database of all contracts and assistance agreements which may need to be audited, and
- developing an audit plan to help ensure complete audit coverage of contracts and assistance agreements.

In May 1996, USAID consolidated its policies and procedures for financial audits, previously found in several different directives, in Chapter 591 of the Automated Directives System. The audit requirements and USAID management's role in making sure that the audits are actually performed are summarized below.

**U.S. non-profit organizations** receiving \$25,000 or more in USAID funds in any one year (under grants, cooperative agreements, or contracts) shall have periodic audits performed in accordance with Office of Management and Budget Circular A-133. These audits will normally be performed annually, but must be performed no less frequently than every two years. The Office of Procurement in USAID/Washington is responsible for making sure that USAID funds provided to these organizations are audited.

**U.S. for-profit firms** receiving USAID funds under direct contracts, grants, or cooperative agreements (or cost-reimbursable host country contracts or subcontracts over \$250,000) will have annual audits performed. The Office of Procurement in USAID/Washington is responsible for making sure that USAID funds provided to these organizations are audited.

**Foreign private for-profit and non-profit organizations** receiving \$100,000 or more in USAID funds during a year will have an annual audit performed. (We have interpreted "a year" as meaning "the recipient's fiscal year.") USAID overseas missions are responsible for making sure that these audits are done.

**Foreign government agencies** receiving \$25,000 or more in USAID funds during a calendar year will have an annual audit performed. USAID overseas missions are responsible for making sure that these audits are done.

**International organizations** may agree to perform audits of USAID funds but USAID oversight of these audits is not required.

During the period from January 1, 1993 through September 30, 1995, USAID/Jordan disbursed \$98.8 million.<sup>1</sup>

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<sup>1</sup> This figure includes disbursements under all types of agreements: e.g., contracts, grants, cooperative agreements, personal services contracts, bank letters of commitment, travel authorizations, etc. The figure excludes disbursements that USAID/Jordan made on behalf of other USAID missions and offices and charged to the other missions and offices. Throughout this report, Jordanian dinars are converted to dollars at the rate of JD 0.70 to \$1.00.

	<i>(thousands)</i>
U.S. entities (USAID/Washington responsibility)	\$53,016
Non-U.S. entities (USAID/Jordan responsibility)	45,493
International entities (no USAID audit responsibility)	<u>309</u>
Total (detail does not add to total due to rounding)	<u>\$98,819</u>

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## **Audit Objective**

The Office of the Regional Inspector General/Cairo performed an audit to answer the following audit question: Has USAID/Jordan carried out its role in obtaining audits of its contracts, grants, and cooperative agreements?

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

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## **Audit Findings**

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

While USAID/Jordan has taken steps to implement an effective audit management program, many required audits were not performed. Accordingly, we concluded that USAID/Jordan did not carry out its role in obtaining audits of its contracts, grants, and cooperative agreements.

USAID/Jordan has taken several steps to implement an effective audit management program. For example, the Mission has:

- established a management control review committee to address management control issues including audit,
- issued a mission order and other guidance to its staff on audit policies and procedures,
- designated an audit management officer in the Controller's Office to manage the audit program,
- prepared an audit inventory (database) listing grants and contracts that may be subject to audit requirements, and

- for the contracts and grants we examined, generally included appropriate audit provisions in the contracts and grants.<sup>2</sup>

As shown in the following table, audits were required for \$3.6 million of USAID/Jordan's \$45.5 million in disbursements to non-U.S. entities from January 1, 1993 through September 30, 1995.<sup>3</sup>

	<i>Disbursements (thousands)</i>
Audit required by USAID directives	\$3,619
Policy reform activities (Disbursements are for policy reforms undertaken by the host government and not for reimbursement of actual expenses.)	27,143
Fixed price contracts (Disbursements are not for reimbursement of actual expenses.)	4,679
Personal services contracts and other payroll-related costs (Disbursements are for personal services, not for reimbursement of actual expenses incurred by an entity.)	3,163
Disbursements below the dollar thresholds established by USAID directives on financial audit	997
Miscellaneous	221
Could not determine—scope impairment	<u>5,671</u>
Total	<u>\$45,493</u>

As of October 31, 1996, 16 audits of \$3.3 million in disbursements should have been performed. (Audits of another \$279,702 in disbursements were due after October 31, 1996.) As shown in the following table, many of these required audits were not performed (detail may not add to totals due to rounding):

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<sup>2</sup> Nine of the 10 contracts, grants, and cooperative agreements examined contained appropriate audit provisions. One cooperative agreement did not contain an appropriate audit provision but this had no effect since the recipient had annual audits performed anyway. The sample included four grants and cooperative agreements with non-U.S. recipients, none of which explicitly included funding for audits in the agreement budgets. We did not consider this to be a major problem since three of the four recipients had had audits performed and no audits were due yet for the fourth recipient.

<sup>3</sup> We could not determine whether an audit was required for a host country contract with disbursements of \$5.7 million (out of the total disbursements reviewed of \$45.5 million) because USAID/Jordan could not locate the contract.

	<i>Required</i>	<i>Actually Performed</i>	<i>Required But Not Performed</i>
Number of audits:	16	5	11
Disbursements covered:	\$3,338,827	\$2,057,968	\$1,280,859

The following section discusses ways that USAID/Jordan can strengthen its audit management program to better ensure that audits are performed when required.

### **Actions Needed To Strengthen The Audit Management Program**

USAID missions are responsible for obtaining required audits of their overseas grantees and contractors. However, USAID/Jordan did not obtain 11 required audits which would have covered disbursements of \$1.3 million. These gaps in audit coverage occurred primarily because USAID/Jordan's audit inventory (database) of grants and contracts did not include all of the information that the Mission needed to assess what audits were required. More complete audit coverage is needed to verify that USAID funds are used for agreed-upon purposes.

#### **Recommendation No. 1 We recommend that USAID/Jordan:**

- 1.1 prepare an audit inventory which is sorted by recipient (rather than by project), includes all commitments (rather than just commitments over \$100,000), and includes information on disbursements to each recipient;**
- 1.2 prepare an annual audit plan which shows, for each grantee or contractor, whether an audit is required and, if so, when the audit is planned to be completed; and**
- 1.3 obtain audits of the General Union of Voluntary Societies, the Housing and Urban Development Corporation, the Noor Al Hussein Foundation, and the University of Jordan.**

USAID policies and procedures make USAID missions responsible for obtaining required audits of their overseas grantees and contractors.

USAID/Jordan did not obtain 11 audits involving 8 recipients which would have covered disbursements of \$1.3 million. Four of these audits, involving four recipients, related to grants which ended several years ago; in our judgment, it would not be practical at

this time to request that these audits be performed because USAID/Jordan is no longer assisting the recipients and because the three-year record retention requirement normally included in USAID grant agreements has expired. The three-year record retention requirement is still in effect for the other four recipients and audits of these recipients should be performed.

Gaps in audit coverage occurred primarily because USAID/Jordan's audit inventory did not include enough information to present a complete picture of the audits required. For example, the inventory only included commitments<sup>4</sup> over \$100,000, rather than all commitments, and did not include actual disbursements to each grantee and contractor. This information was needed to see whether the audit thresholds established by USAID policy (page 2) were exceeded. Also, while the audit inventory indicated when audits were required for most grantees and contractors, it did not indicate when audits were required for host country contractors. Another problem was that, apart from the audit inventory, which was incomplete, no annual audit plan was prepared. Finally, some grantees (such as the Noor Al Hussein Foundation) submitted audit reports to USAID/Jordan but the Mission did not forward the reports to the Office of Inspector General for review and distribution. When we examined the audit reports, we found that they lacked a fund accountability statement (that is, a financial statement showing the budgeted and actual uses of USAID funds) and other required information such as reports on internal controls and compliance with applicable laws and regulations.

As a result, some required audits were not performed or did not include required information. More complete audit coverage is needed to verify that USAID funds are used for intended purposes. USAID/Jordan needs to prepare a complete audit inventory and audit plan and obtain audit reports for three grantees (see "management comments and our evaluation" below). We are communicating certain minor problems to USAID/Jordan in a separate letter.

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## **Management Comments and Our Evaluation**

USAID/Jordan generally agreed with the contents of the audit report and the recommendations. The Mission offered detailed comments on each of the three parts of recommendation number 1. The Mission's comments and our evaluation are summarized below.

Recommendation part 1.1 - The mission stated that it would revise its method of preparing the audit universe (database) to include all commitments. However, the Mission had not actually prepared a revised audit universe listing all commitments and

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<sup>4</sup> Commitments represent a firm pledge or promise to pay upon fulfillment of the terms of an agreement. Commitments may be in the form of a contract, grant, project implementation letter, or other document.

the reasons why each commitment was or was not subject to audit. We agree with the Mission's management decision regarding this part of the recommendation but, pending completion of the revised audit universe, final action is not complete.

Recommendation part 1.2 - The mission prepared an audit plan listing the audits planned for each non-U.S. entity and their due dates. We agree with the Mission's management decision on this part of the recommendation but, since the audit plan is dependent on preparation of an adequate audit universe (part 1.1 above), final action is not complete.

Recommendation part 1.3 - For four of five entities included in this part of the recommendation in our draft report, the Mission agreed that audits were required and planned to obtain audits (in the case of the University of Jordan, the Mission planned an in-house financial review since the grants have expired and funds are no longer available under the project to pay for an audit). For the fifth entity, the Mission provided evidence that the entity is a U.S. entity which the Office of Procurement in Washington is responsible for. We agree with the Mission's management decision on this part of the recommendation. Final action is not complete since the audits are not yet finished.

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## SCOPE AND METHODOLOGY

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### Scope

We conducted our audit in accordance with generally accepted government auditing standards. Fieldwork for the audit took place from October 7, 1996 through February 3, 1997. The audit scope covered whether USAID/Jordan (1) provided adequate direction over its financial audit program, (2) included appropriate audit clauses and budgets in grants and cooperative agreements with overseas entities, (3) established an accurate audit universe, and (4) requested audits when required. The audit examined USAID/Jordan's role in obtaining audit coverage of \$45.5 million disbursed to non-U.S. entities from January 1, 1993 through September 30, 1995. The audit considered financial audits completed as of October 31, 1996.

The audit was subject to a scope impairment: We could not determine whether an audit was required for a host country contract with disbursements of \$5.7 million (out of the total disbursements reviewed of \$45.5 million) because USAID/Jordan could not locate the contract.

The audit included an assessment of USAID/Jordan's controls over the financial audit process and the foreign recipient-contracted audit program. We limited our conclusions to the items actually tested: that is, we did not attempt to project the results of our tests on the accuracy of the sampled data to data we did not test.

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### Methodology

We performed the following procedures in answering the audit question of whether USAID/Jordan obtained the needed audit coverage of its overseas grantees and contractors:

- *An examination of whether appropriate audit clauses and funding for audits were included in grants, cooperative agreements, and contracts with overseas entities,*

including reviewing a random sample of 10 grants, cooperative agreements, and contracts.

- *A determination of whether USAID/Jordan issued guidance and established direction for financial audits, including reviewing (1) USAID/Jordan Order 36, (2) minutes of meetings of the Mission's Management Control Review Committee, and (3) related correspondence.*
- *A determination of whether the Mission established an audit inventory (database), including (1) reviewing and testing the methodology for preparation of the audit inventory, (2) reviewing the justification for excluding certain contracts and grants, (3) verifying the accuracy of selected data entered into the audit inventory by comparing the data with source documents, and (4) preparing our own audit inventory based on information in USAID/Jordan's accounting system.*
- *An examination of whether USAID/Jordan requested audits when required by USAID directives, including (1) comparing the audit inventory with audit reports on file in USAID/Jordan to see if required audits were completed and (2) reviewing audit reports to see if they included a fund accountability statement (i.e., a financial statement showing budgeted and actual uses of USAID funds), a report on internal controls, a report on compliance, and a statement that the audit was performed in accordance with generally accepted government auditing standards.*

Our threshold level for reporting material exceptions was a five percent error rate.

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U.S. AGENCY FOR  
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**M E M O R A N D U M**

To: Louis Mundy, RIG/A/C

From: B. Eilene Oldwine, Acting Mission Director *BEW*

Subject: Audit of USAID/Jordan's Audit Coverage of Contracts, Grants and Cooperative Agreements

I have reviewed the subject draft audit and generally concur with both the content of the audit and its recommendations. I would like to thank your staff, as well as your home office, for the professional work done in assisting us sort out this somewhat complicated area. We had previously worked with RIG/A/Nairobi in doing our audit inventory. Changing rules and interpretations left unintentional gaps in our previously approved audit inventory. Below are specific comments and actions taken for each recommendation.

**Recommendation 1.1: We recommend that USAID/Jordan prepare an audit inventory which is sorted by recipient (rather than by project), includes all commitments (rather than just commitments over \$100,000), and includes information on disbursements to each recipient;**

**USAID/Jordan response:** We agree with this recommendation. We have revised our audit universe and included all commitments (rather than just commitments over \$100,000 as was previously approved by RIG/A/Nairobi) in subsidiary records. The initial database inquiry, our audit universe, lists all commitments, sorted by recipient, for the previous three fiscal years, regardless of value, and related disbursements. The audit universe records are annotated with reasons that a recipient is excluded from the final audit inventory. This process will produce two documents -- an audit universe listing all potential audits and a final audit inventory of commitments requiring audits. By limiting the final audit inventory to recipients that require audits, we have a much more manageable document which will minimize the chances of overlooking required audits. Copies of the audit universe will be reviewed each year to ensure all recipients requiring audits are included on the audit inventory. Attachment 1 is a copy of USAID/Jordan's audit inventory.

**Based upon the work done on this recommendation, the Mission requests that the recommendation be resolved and closed upon issuance of the report.**

**Recommendation 1.2:** prepare an annual audit plan which shows, for each grantee or contractor whether an audit is required and, if so, when the audit is planned to be completed;

**USAID/Jordan Response:** We agree with the recommendation for grantees and contractors for which the Mission has audit coverage responsibility. For grantees and contractors for which the USAID/W Office of Procurement (OP) has responsibility, we will verify that the grantee/contractor is on OP's latest audit listing. The Mission's audit inventory developed for Recommendation 1.1 above includes two columns which show the planned audit date and date audits are received. The audit plan will be updated annually.

Based upon the work done on this recommendation, the Mission requests that the recommendation be resolved and closed upon issuance of the report.

**Recommendation 1.3:** obtain audits of the American Center for Oriental Research, the General Union of Voluntary Societies, the Housing and Urban Development Corporation, the Noor Al Hussien Foundation and the University of Jordan.

**USAID/Jordan Response:** We concur with the intent of this recommendation, based upon information gathered during the field work of this audit. The request to audit the American Center for Oriental Research (ACOR) is perplexing as we had several audits of ACOR on hand during the field work and just received the 1996 audit. Additionally, as a US NGO, ACOR is subject to OMB A-133 audits, not Recipient Contracted Audits. ACOR has had the required A-133 audits done. USAID/Jordan will coordinate with USAID/W/OP to ensure that the audits are submitted in a timely manner to OP. We request that ACOR be removed from the recommendation.

The University of Jordan used \$122,198 for various activities related to academic enhancement and exchange programs. Rather than have the University of Jordan conduct a recipient contracted audit, given the grants expired one to two years ago and the lack of funds in the project, the Mission proposes to review all original invoices paid by the University of Jordan to ensure that funds were properly spent in accordance with the relevant Project Implementation Letters.

The Noor Al Hussien audit is currently underway. We expect the final reports within the month. USAID/Jordan will contract with an approved audit firm to audit the funds advanced to HUDC. USAID/Jordan is working with the General Union of Voluntary Societies to have the required audit work done.

Based upon the above actions, Mission requests this recommendation be resolved upon issuance of the report.

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*Major Contributors to this Report*

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